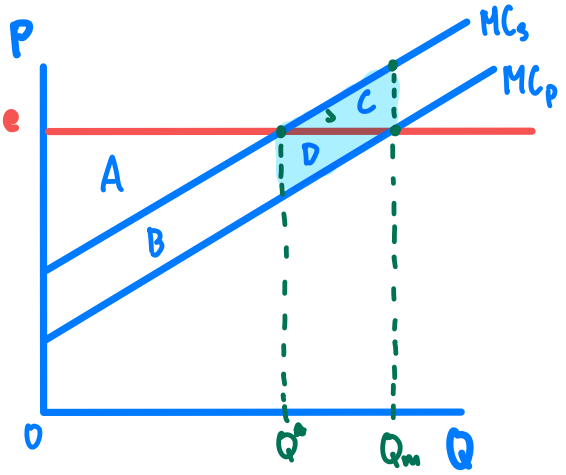
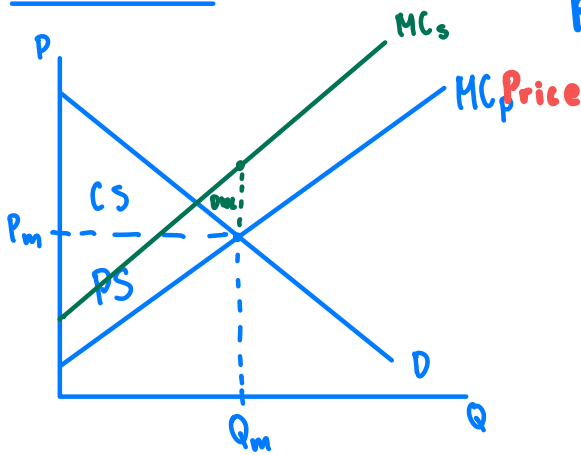




# Question 1

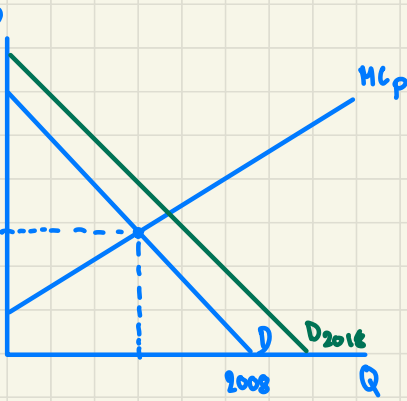


i) for case A, externality exists. - It is a negative to the society only if the production reaches the  $Q_m$ .  
- If the factory decided to produce  $MC_s$ , this will create DWL and will cause an inefficiency to the economic surplus by lowering the CS.

ii) Yes, if the production exceeds  $Q_m$ , negotiation could be made and both of the party could get the benefit.

iii) By giving tax with the same amount that is being polluted

Case B) P



i) Yes, Air pollution  $\Rightarrow$  Over consumption  $\Rightarrow$  negative impact

$\Rightarrow$  Yes, have inefficiency from our production

ii) No, Because population is large and therefore Coase is not possible  $\Rightarrow$  cannot negotiate

iii) putting a price  $\Rightarrow$  tax on consumer

## Question 2

i) We can use WTA and the method use is CVM. By using this will know the estimated willingness to accept of each people by asking directly their WTA

ii) We should considered NPV. if  $\text{Benefit} > \text{Cost} \Rightarrow$  Support the project  
 $\text{Cost} > \text{Benefit} \Rightarrow$  don't support

