

## Key Economic Notes (Micro)

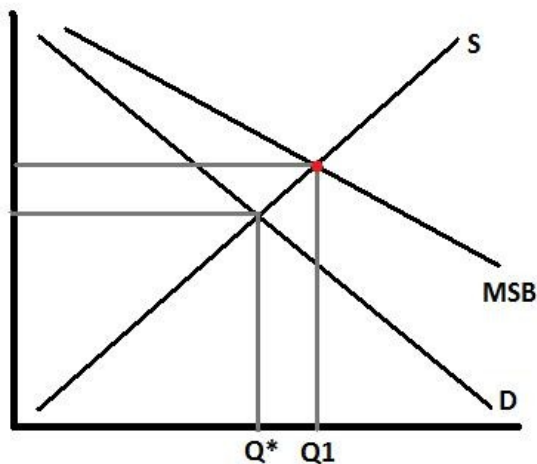
Externality – Is an additional cost or benefit faces/ incurred by society

$$\text{Private (Cost/Benefit)} + \text{Externality} = \text{Social (Cost/Benefit)}$$

Example: The private cost of smoking is that the person who has to buy the cigarettes, because of this the externality cost to society is the cost of health care for that.

### Merit Goods

Goods that we want to promote because they benefit the society this is a positive externality. The social benefits are greater than private

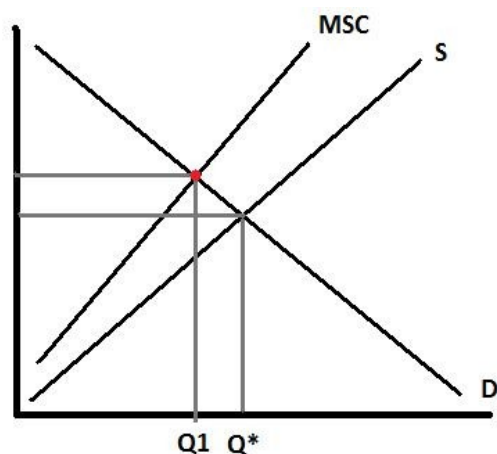


Red Point = the optimal performance  
 MSB= Marginal social benefit  
 S=Supply  
 D=Demand  
 Q=Quantity

### Demerit Goods

Negative externality because cost to the society is greater than the private cost

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### Government Intervention

A government intervenes/ interferes with the market because it is trying to prevent market failure, by attempting to correct it

- Demerit goods – needs to be decreased (good created)
- Merit good – needs to be increased (good created)