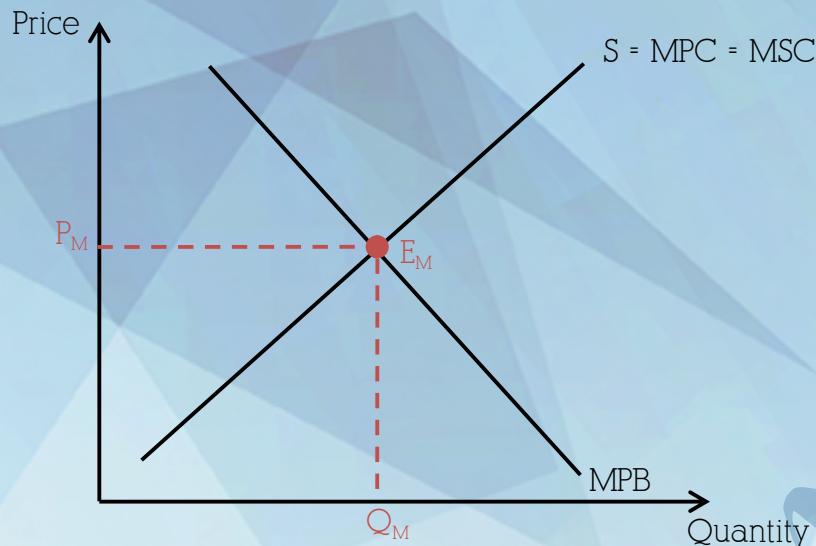


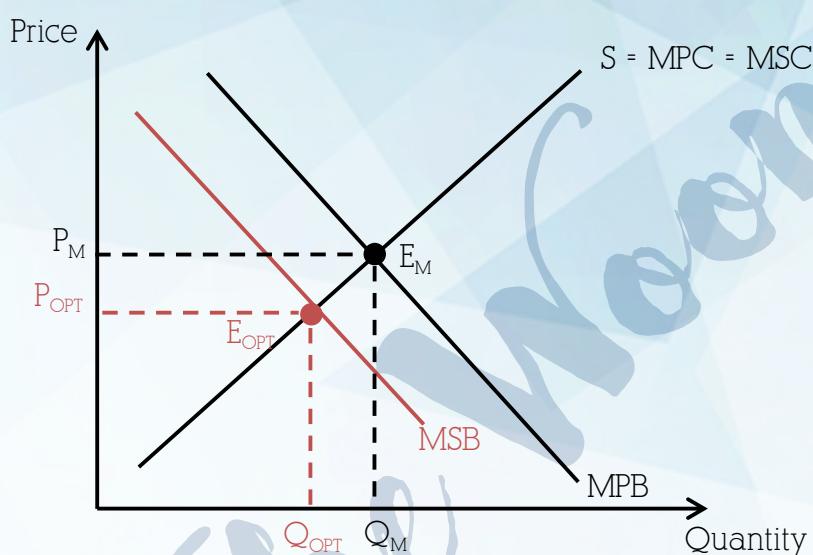
Consumption Externalities

FIGURE 1: NEGATIVE CONSUMPTION EXTERNALITIES



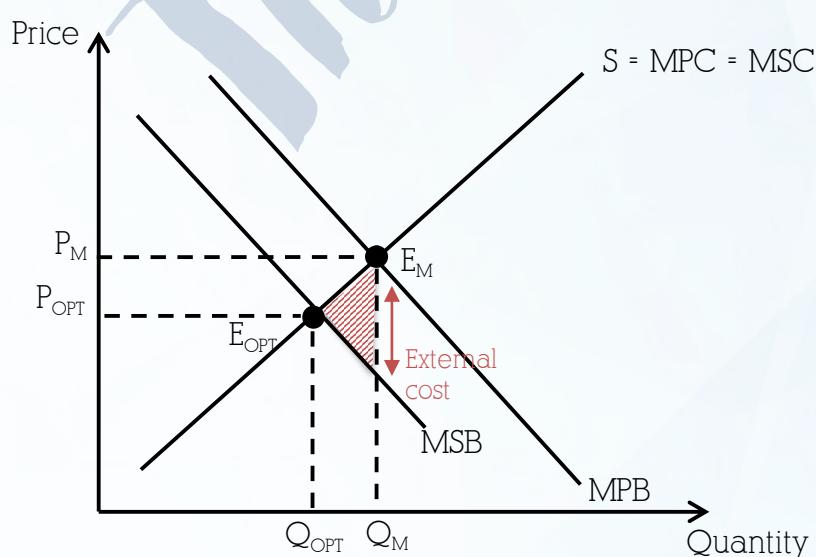
STEP ONE:

- Draw supply curve ($S = MPC = MSC$)
[NB: since it is a consumption externality, only the demand curve will deviate whilst the supply curve stays constant]
- Draw the demand curve and label it MPB
- Label the axes (Price & Quantity)
- Label the market equilibrium (E_M), price (P_M) and quantity (Q_M) where $MPC=MPB$



STEP TWO:

- Draw in the MSB, which lies lower than MPB since society does not benefit as much due to the actions of the consumer of a good or service that results in negative externalities.
- Label the socially optimum equilibrium (E_{OPT}), price (P_{OPT}), and quantity (Q_{OPT})



STEP THREE:

- Shade in the triangle to show the external spillover cost (welfare loss) to society from the actions of consumers.
- [Tip: To find the correct triangle, the distance between the MSB and MPB is the length of the triangle and the other 2 sides of the triangle should point towards the socially optimum equilibrium (E_{OPT})]