

Unintended Consequences – Positive and Negative Externalities

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SUBJECT(S): Economics

GRADE LEVEL(S): 9, 10, 11, 12

≡ OVERVIEW:

In this lesson, students are introduced to positive and negative externalities. Using the article, “Social Responsibility in the Corporate World,” students will discuss corporate responsibility for negative social outcomes. In particular, students will work in groups, each tackling a particular industry, and that industry’s response to negative externalities.

≡ NBEA STANDARD(S):

- Economics, II. Economic Systems
- Economics, VII. The Role Of Government

≡ RELATED ARTICLES:

- [“The WGYE Essay Contest: Social Responsibility in the Corporate World”](#)
- [“A Shanghai Student Perseveres in His Quest to Provide Funding for the Poor”](#)

Objectives/Purposes: The purpose of this lesson is for students to understand *positive* and *negative externalities*.

- Students will be able to define *externality*.

- Students will look at corporate incentives to mitigate negative externalities.
- Students will look at corporate incentives to increase positive externalities.

Other Resources/Materials:

For Teachers:

- Internet Access (Outside of the Classroom)
- Printer/Copier
- Access to Chalkboard/Whiteboard

Activity:

The lesson is divided into five parts: (1) Introduction, (2) Guided Reading, (3) Class Discussion, (4) Exploration Activity, and finally (5) Closing

1. Introduction (5-10 mins)

Introduce today's lesson by briefly touching on the previous lesson. In particular, encourage students to define *public goods*, and talk briefly about who pays for, and who benefits from, these public goods. In this discussion, it should be evident that some people benefit from public goods who do not bear the costs.

Use this discussion to introduce students to the concept of *externalities*. An *externality* is a cost or benefit that is not reflected by price, and not agreed to by the recipient. For example, when factories release pollutants into the air, there is a social cost. This social cost is a negative externality. The people who bear these costs (e.g. neighborhoods near the factory) are not reimbursed, and the cost of polluting is not reflected in the price of the products that the factory makes.

Similarly, a positive externality is one that benefits others. For example, if I buy a new fire-resistant roof, my neighbors benefit from that purchase. (The risk of their home catching fire decreases.) However, this benefit is not reflected in the cost of my roof.

Ask students to think of their own examples of *externalities*. Common answers include: smoking, littering, education, etc.

2. Guided Reading (5-10 mins)

Next, have students read through the article “[Social Responsibility in the Corporate World.](#)” As students read, encourage them to think about how externalities are involved in microfinance loans.

3. *Class Discussion (1-5 mins)*

Once students have finished reading, encourage students to briefly summarize the article. Make sure students understand the concept of microfinance loans. Next, ask students if, and how, these loans might create externalities (good and bad).

4. *Exploration Activity (10-15 mins)*

After this discussion, break students into groups of three or four. Give each group a copy of [Worksheet 1: Internalizing Externalities](#).

After students complete the worksheet, have groups share their answers with the class.

5. *Closing (1-5 mins)*

Building on the group reports, define the term *externality* one last time. Encourage students to think about how governments might discourage negative externalities, and how governments might encourage positive externalities.

Practice Outside of the Classroom:

Outside of the classroom, have students look for examples of government intervention. Where do you see the government forcing individuals or corporations to internalize the cost of externalities? Where do you see the government enticing individuals and corporations to create more positive externalities?

What Worked and What I Would Do Differently

As you first introduce students to the concept of externalities, it can help to start with “internal” costs and benefits. For example, if a student has a notebook, ask him or her what the internal benefit is. How does he or she, individually, benefit from that notebook? Next, ask about the internal cost (i.e. the price of purchasing the notebook). Finally, move from internal to external. How does the notebook benefit *other* people in the classroom who didn’t help pay for it?