

1.c GOVERNMENT MEASURES (neoclassical economics)

The most well-known government measures to 'internalise' externalities in the market price are taxes and subsidies.

But let us first zoom in on minimum price and maximum price.

MINIMUM PRICE IS THE PRICE THE GOVERNMENT SETS ABOVE THE MARKET PRICE

MAXIMUM PRICE IS THE PRICE THE GOVERNMENT SETS BELOW THE MARKET PRICE

MINIMUM PRICE



Alcohol in Scotland substantially more expensive

Scotland became the first country in the world to institute a minimum price (called the MUP) for alcohol. Why? To combat the problem of nuisance caused by ‘binge drinking’ among young people.

Minimum price combats negative externalities.

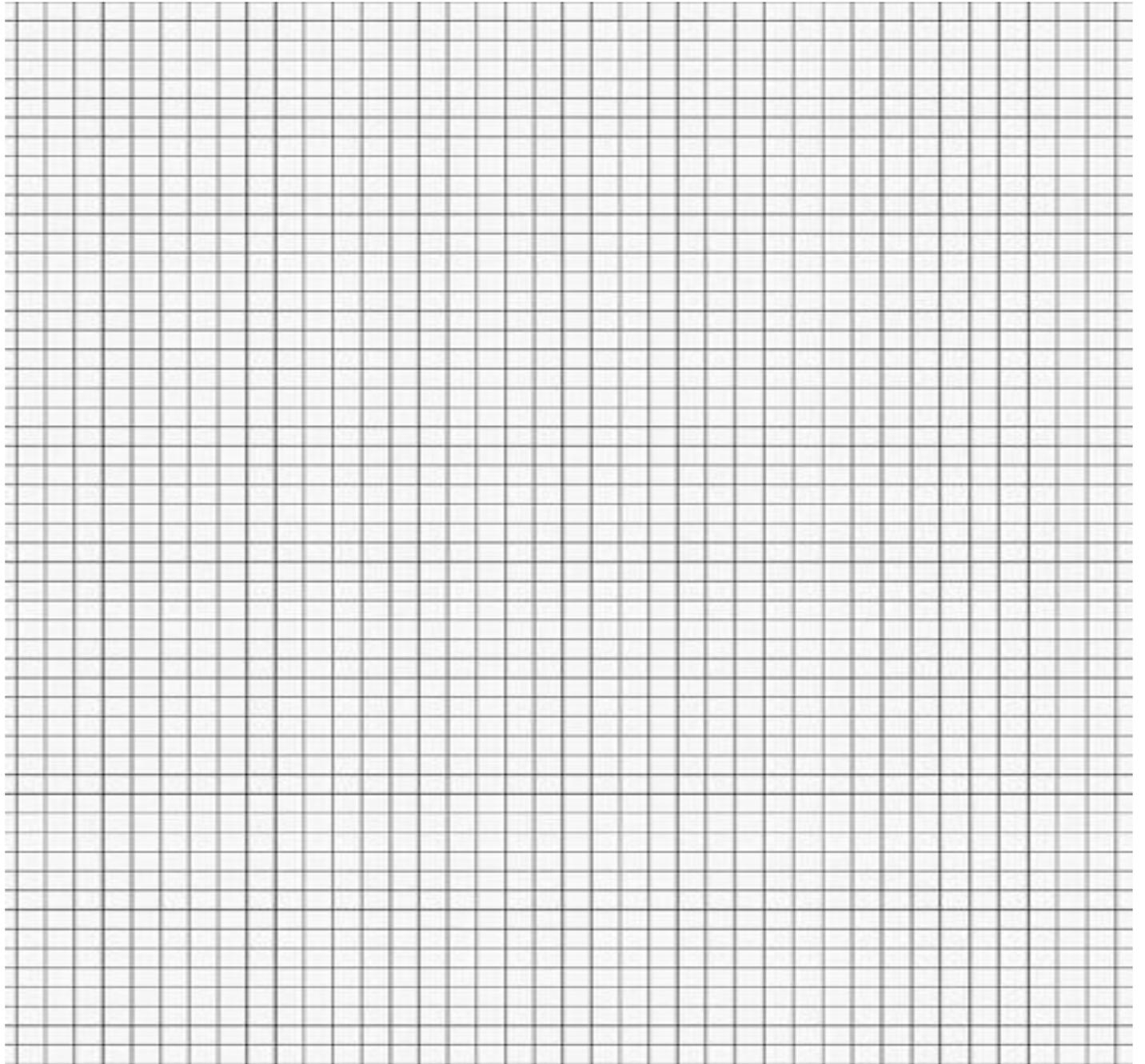
Example:

$$Q_d = 100 - P$$

$$Q_s = P$$

Minimum price: €60

1) Demand and supply model:



2) Formulas CS, PS and TW:

3) Calculation CS, PS and TW:

MAXIMUM PRICE



Maximum price for fresh fruit and vegetables

On the island of Curaçao, the government has set a maximum price on fruits and vegetables high in vitamin C such as kiwis, oranges, mandarins, strawberries and pineapples. Thus, consumption of fresh fruits and vegetables is encouraged.

Maximum price reinforces positive externalities.

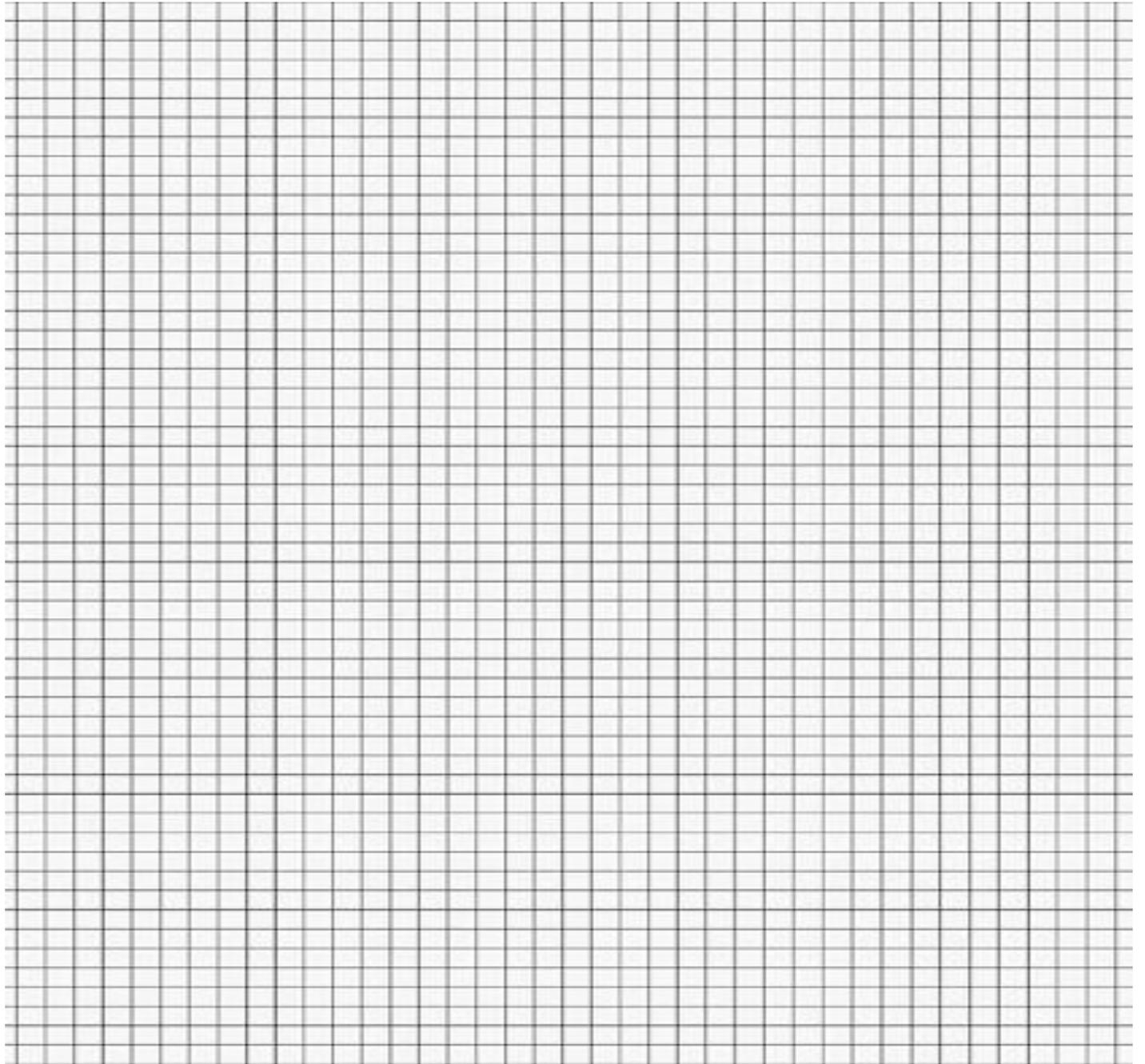
Example:

$$Q_d = 100 - P$$

$$Q_s = P$$

Maximum price: €30

1) Demand and supply model:



2) Formulas CS, PS and TW:

3) Calculation CS, PS and TW: