



Eggs-ternal Costs

Handout and Assessment Answer Key

Handout 1: Assessment—Answer Key

For each situation listed below, identify the external cost(s) and write how property rights and/or rules could reduce the external costs.

1. People driving cars

Air pollution and road congestion: Rules that cause people to drive less would reduce external costs.

2. People burning leaves in their yards

Air pollution and risk of wildfire: A law that prevents people from burning leaves, trash, and other waste in their yards would reduce external costs.

3. Someone pouring chemicals into a river

Water pollution: A law preventing people from or fining people for pouring chemicals and other waste in the river would reduce external costs.

4. Someone playing drums in a hotel room at night

Noise pollution: The owner of the hotel has the right to ask the guest to stop making noise. If the guest refuses to stop, the owner can tell the guest to leave.