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## Federal Reserve Bank of St. Louis *Page One Economics Newsletter*: "Economics and the Environment"

| "Economics and the Environment"  |  |
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| After reading the article, answer the following questions.   |  |
| 1. How is pollution an example of a negative externality?  |  |
| 2. Explain how negative externalities and, more specifically, pollution often result from a lack of clear property rights.   |  |
| 3. The <i>Page One</i> essay identifies three methods for correcting negative externalities. Summarize and describe how each solution reduces pollution compared with the level that would be produced by the free market. |  |
| Pigovian tax   |  |
| Pollution tax  |  |
| Tradable pollution permits   |  |

4. Why do economists generally prefer Pigovian taxes or tradable pollution permits to government mandates?