1 DNL-SES **Assessment** Thursday, 22th May 2025.
NAME: ……..

I. Children as externalities (5 marks)

We live in increasingly intolerant times. Signs proliferate demanding no smoking, no spitting, even no walking … (…) Mobile phones are the largest target: some trains, airline lounges, restaurants, and even golf courses are being designated 'no phone' areas.
If intolerance really has to be the spirit of this age, *The Economist* would like to suggest restrictions on another source of noise: children. (…) We can even produce a good economic argument for it. For children, just like cigarettes or mobile phones, clearly impose a negative externality on people who are near them.
Anybody who has suffered a 12-hour flight with a bawling baby in the row immediately ahead, or a bored youngster viciously kicking their seat from behind, will grasp this as they would love to grasp the youngster's neck. Here is a clear case of market failure: parents do not bear the full costs (indeed Young babies travel free), sot they are too ready to take their noisy brats with them. Where is the invisible hand when it is needed to administer a good smack?
The solution is obvious. All Airlines, trains, and restaurants should create child-free zones. (…) And instead of letting children pay less and babies go free, they should be charged (or taxed) more than adults.

« Mum's the Word: When Children Should be Screened and Not Heard », *The Economist*,
5 December 1998.

Help box

Spitting: saying in a hostile way	To grasp: to hold something firmly
To bawl: to cry noisily	Brats: a badly behaved child
To kick: to hit with the foot	Smack: gifle

Questions:

1. Define externality. (1 mark)
2. Explain the types of externality cigarettes and mobile phones are. (1 mark)
3. What is meant by « market failure »? (1 mark)
4. Explain « full costs » from an example using the economic words. (1 mark)
5. Why can children be a negative externality? (1 marks)

II. Explaining a positive externality (5 marks)

You are a famous economist. Today you have to introduce what positive externality means to Alice who knows nothing on this issue.
As a result, write down a small paragraph (roughly 15 lines) about a positive externality using the following words or expressions in the appropriate way:

- to undertake;
- beekeepers;
- to yield;
- external benefit;
- neighbouring gardens.
- market failure.

1 DNL-SES **Assessment** Thursday, 22th May 2025.
NAME: Sacha

I. Children as externalities (5 marks)

We live in increasingly intolerant times. Signs proliferate demanding no smoking, no spitting, even no walking … (…) Mobile phones are the largest target: some trains, airline lounges, restaurants, and even golf courses are being designated 'no phone' areas.
If intolerance really has to be the spirit of this age, *The Economist* would like to suggest restrictions on another source of noise: children. (…) We can even produce a good economic argument for it. For children, just like cigarettes or mobile phones, clearly impose a negative externality on people who are near them.
Anybody who has suffered a 12-hour flight with a bawling baby in the row immediately ahead, or a bored youngster viciously kicking their seat from behind, will grasp this as they would love to grasp the youngster's neck. Here is a clear case of market failure: parents do not bear the full costs (indeed Young babies travel free), sot they are too ready to take their noisy brats with them. Where is the invisible hand when it is needed to administer a good smack?
The solution is obvious. All Airlines, trains, and restaurants should create child-free zones. (…) And instead of letting children pay less and babies go free, they should be charged (or taxed) more than adults.

« Mum's the Word: When Children Should be Screened and Not Heard », *The Economist*,
5 December 1998.

Help box

Spitting: saying in a hostile way	To grasp: to hold something firmly
To bawl: to cry noisily	Brats: a badly behaved child
To kick: to hit with the foot	Smack: gifle

Questions:

1. Define externality. (2 marks)
2. What is meant by « market failure »? (1 mark)
3. Why can children be a negative externality? (2 marks)

II. Explaining a positive externality (5 marks)

You are a famous economist. Today you have to introduce what positive externality means to Alice who knows nothing on this issue.
As a result, write down a small paragraph (roughly 15 lines) about a positive externality using the following words or expressions in the appropriate way:

- to undertake;
- beekeepers;
- to yield;
- external benefit;
- neighbouring gardens.
- market failure.

1 DNL-SES **Assessment** Thursday 22th May 2025.
Correction

I. Children as externalities (5 marks)

1. Externality is the third-party effects arising from production and consumption of goods and services for which no appropriate compensation is paid.

2. Cigarettes and mobile phones are two examples of negative externalities. There are pure consumption externalities because they are generated and received in consumption. The first one discharges bad smoke damaging people's health, the second one creates noises disturbing people.

3. Market failure occurs in any situation in which the market does not work.
For example, it cannot operate to set up the price for different types of externality.
The market is unable to charge on it.

4. « full costs » or real costs include the costs of production and the external costs.
e.g.: the price for electricity must include the costs of production (total costs of the factors of production) *plus* the external costs which are both the costs of the acid rain discharged into the atmosphere by the power station and the eyesore pollution.

5. Children can be a negative externality when they cry loudly or they play noisily in public areas such as trains, aircrafts or restaurants. In this case they disturb the people nearby who don't receive any compensation for it.

II. Explaining a positive externality (5 marks)

My colleague, Eric, a DT (design and technology) teacher, bought last month a massive field in Saint Cézaire, close to Grasse. He is used to managing bees to get sweet honey. Thus, at the start of the spring he would like to undertake a beekeeper activity in this countryside. Around this field there are a lot of properties: some houses are stunning with trees, especially cherry trees. However, he does not know, neither him nor the neighbours, that his activity can yield a good effect unexpected, what the economists call a positive externality. In this case, Eric's bees will pollinate fruit trees in neighbouring gardens. All neighbours shall enjoy fruits from their trees thanks to the bees activity without pay for it. It's a good example of an external benefit.

Broadly, a positive externality means the third-party effect arising from a production of goods and services for which no appropriate compensation is paid.
Due to the benefit costs not included in the price, the market does not work: it is a case of market failure.