Centurion
UNIVERSITY
Shaping Lives...
Empowering Communities...

Lecture 18

Natural Resource Economics - 2

Externalities

What Is an Externality?

An externality is an economic term referring to a cost or benefit incurred or received by a third party. However, the third party has no control over the creation of that cost or benefit.

An externality can be either positive or negative and can stem from either the production or consumption of a good or service. The costs and benefits can be both private—to an individual or an organization—or social, meaning it can affect society as a whole.

Centurion UNIVERSITY
Shaping Lives...
Empowering Communities...

Pollution emitted by a factory that muddies the surrounding environment and affects the health of nearby residents is a negative externality. The effect of a well-educated labour force on the productivity of a company is an example of a positive externality.

Centurion UNIVERSITY
Shaping Lives...
Empowering Communities...

Negative Externalities

Cultural

1. The landscape itself (good/goods) 2. Enhanced cultural landscape, geographical identity 3. Sense of place, heritage, leisure, recreational and tourism

1. Impoverished landscape 2. Damaged geographical identity 3. Devastated heritage

Positive Externalities

Environmental

1. Viable ecosystems 2. Biodiversity and its preservation 3. Water quality and water availability 4. Soil quality, air quality 5. Climate stability 6. Resilience to fire, resilience to flooding

.

Negative Externalities

Environmental

1. Damage for populations of flora and fauna 2. Damaged soil, biodiversity loss, soil erosion 3. Water, air pollution, gas emissions 4. Destruction of protected objects of nature 5. Polluted environment from different chemical nutrients, 6. fertilizes