**Motive Questions: (Thought-Provoking)**

* **When you get a flu shot, who benefits from that?**
* **Imagine a new factory opens in your town. Besides creating jobs, what other effects might it have on the community?**

LECTURE

**Externalities are th**e unintended side effects of an economic activity that affect a third party not directly involved in the transaction. These can be either positive or negative.

### **Positive Externalities 👍**

A **positive externality** occurs when an action or transaction creates a benefit for a third party. The benefit "spills over" to someone who didn't pay for or participate in the activity. Because the full benefit of the action isn't captured by the person who performs it, positive externalities often lead to **underproduction** in a free market.

**Vaccinations:** When a person gets vaccinated, they not only protect themselves but also reduce the risk of spreading the disease to others in the community, contributing to **herd immunity**.

**Education:** A more educated populace leads to a more productive workforce, lower crime rates, and more informed voters, benefiting society as a whole.

**Beekeeping:** A beekeeper's primary goal is to produce honey, but a positive side effect is that their bees pollinate nearby farms and gardens, increasing crop yields for others.

**Restoring a historic building:** The owner of the building receives a private benefit from the restoration, but the surrounding community also benefits from increased property values, tourism, and a more aesthetically pleasing neighborhood.

### **Negative Externalities 👎**

A **negative externality** occurs when an action or transaction imposes a cost on a third party. The cost "spills over" to someone who didn't participate in or benefit from the activity. Because the cost isn't borne by the producer or consumer, negative externalities often lead to **overproduction** in a free market.

**Pollution:** A factory that produces goods might also release harmful pollutants into the air or water. The company doesn't pay for the resulting health problems or environmental damage, but society bears these costs.

**Secondhand smoke:** A person smoking a cigarette creates a cost for those nearby who are exposed to the secondhand smoke and its health risks.

**Loud music:** Playing loud music late at night can disturb neighbors, imposing the cost of sleep deprivation on them without their consent.

**Traffic congestion:** An individual driving their car to work contributes to traffic jams, causing delays and lost time for all other drivers on the road.