**Essay Question 10**

**Assess the view that the Singapore government should use taxes rather than any other economic policies when dealing with the market failure associated with negative externalities. [25]**

Introduction

-Definition of negative externalities

-State that there is a need to introduce policies to curb the effect of negative externalities so as to ensure social optimization of resource allocation which will allow the industry to maximise the net social benefit gain. In doing so, the government can either use taxation or subsidies to deal with the negative externalities. Whether tax imposition would be a more appropriate policy than the introduction of subsidies, it depends on the manner how these negative externalities would be curbed.

Main Body

**1) Explain how negative externalities would be created by the consumption and production of demerit goods**

-Economic causation how **over-production (road usage)** of demerit goods such as manufacturers of goods would occur/diagram/description of diagram

**2) Explain how taxation can be used to reduce over-consumption and production of demerit goods to social optimal level (illustrate with a graph)**

**3) Briefly explain how rules and regulations, public education and direct provision can be used to ensure that the negative externalities will be curbed**

**4) Evaluate the appropriateness in using taxation to solve market failures due to negative externalities**

-Benefits/Conditions for the use of taxation

* Tax revenue
* Allows market forces to operate 🡪 reduces administrative cost and time wastage

-Detriments/Conditions against the use of taxation

* ↑COP/↑COL
* PED-inelastic condition

**5) Evaluate the circumstances why other policies would be more appropriate and effective in curbing the negative externalities** 🡪 eradicate the root cause (public education), Rules and Regulations 🡪 direct control/enforcement

Conclusion

It is imperative that the government introduce policies to correct negative externalities to ensure that there is social efficient allocation of resources. However, the types of policies to be used would depend on the circumstances as different types of merit goods have different complexities in their production and consumption.