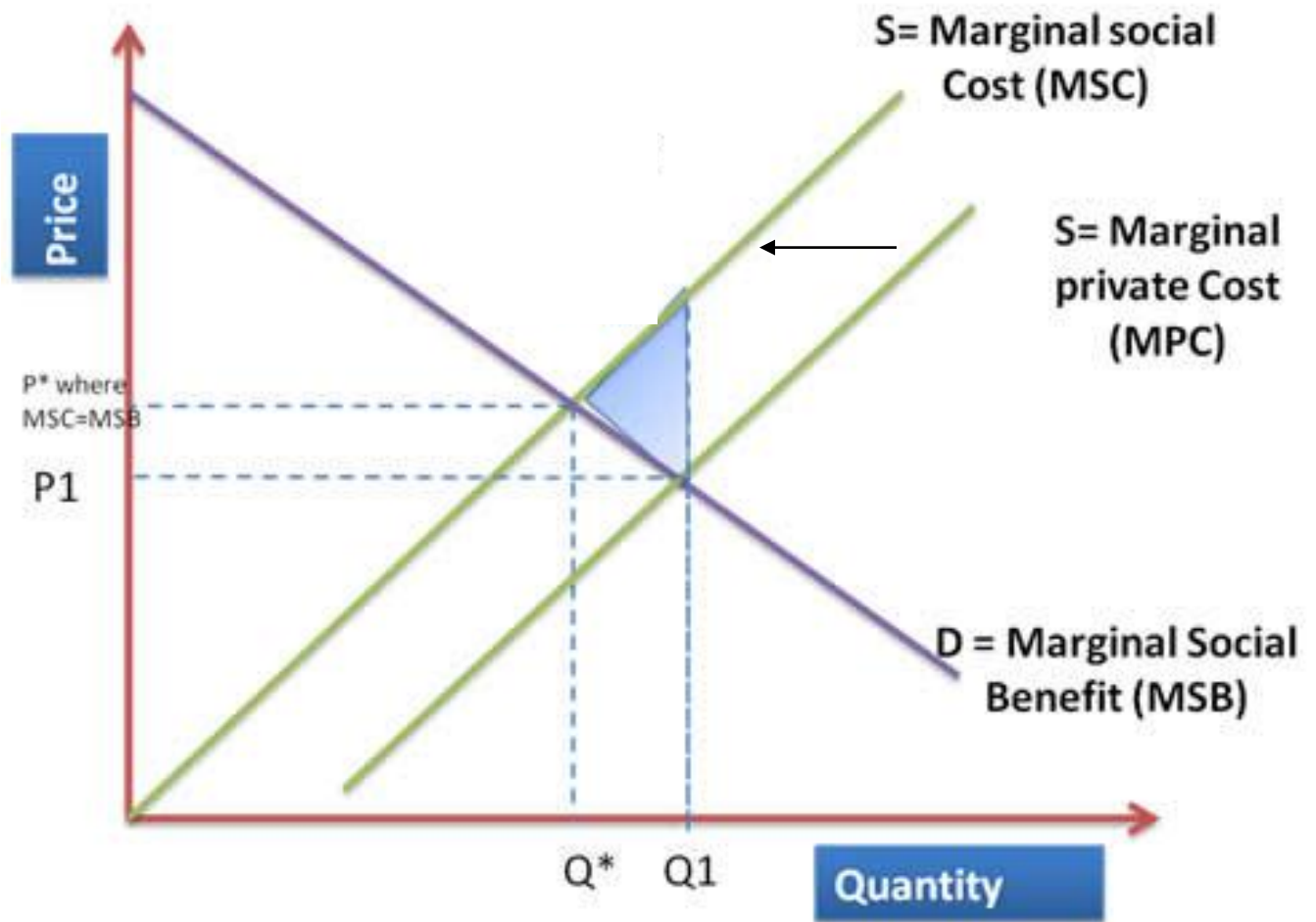


EXTERNALITY

This is an example of a negative externality and its solution



Q^* is optimal equilibrium quantity after tax

Q_1 is equilibrium quantity in free market before tax

(triangle in graph represents a welfare loss or you could say it shows market failure)