



Government intervention to address externalities



This sequence is intended as a framework to be modified and adapted by teachers to suit the needs of a class group.

Resources needed

- Modelling subsidies – Visualiser
- Modelling subsidies – Teacher’s notes
- How governments address externalities – Explainer
- Addressing externalities – Worksheet
- Taxation and negative externalities – Group investigation

Suggested activity sequence

Part A: Modelling the impact of government policies to vary supply

- 1 Introduce the concept of supply-side policies and the role of government in varying the supply of goods with social costs or benefits.
- 2 Pairs of students read the first section of the *Explainer*.

Tip

Encourage students to use the *Reading for meaning strategy* or to take notes using the *Cornell note taking system*.

- 3 Model the impact of a subsidy on supply, price and quantity traded using the *Visualiser*. For an explanation of the effect of a subsidy on supply, price and quantity, see the *Teacher’s notes*.
- 4 Students complete the *Worksheet*. Students may need to refer to the case study on the *Explainer* to support them.
- 5 Discuss student answers, modelling the supply and demand curve for each scenario. Possible discussion points include:
 - How does increasing or decreasing regulations affect levels of production and consumption?
 - Why would the government want to increase regulations on the production of plastics? How does this improve society’s wellbeing?
 - Why would they want to place fewer regulations on the provision of childcare? How does this measure improve society’s wellbeing?
 - What difference does a subsidy to the production of lithium batteries make? Why is this desirable? How would it improve society’s wellbeing?
 - How does imposing a tax on alcoholic beverages affect the quantity traded? Why would the government intervene in the market to reduce the production and consumption of alcohol?
 - What other examples of taxation have been used to vary the production and consumption of goods with social costs?
 - How do taxes, subsidies and regulations lead to more efficient allocation of resources?



Part B: Investigating the role of taxes in varying supply

- 1 Use a *grouping strategy* to organise students into groups of 3.
- 2 Give groups at least 2 lessons to complete the *Group investigation*.
- 3 Groups present their findings to the class.
- 4 Discuss whether government intervention leads to a more efficient allocation of resources in terms of maximising society's wellbeing.
- 5 Students write a short response to the question: How does government intervention lead to a more efficient allocation of resources?

