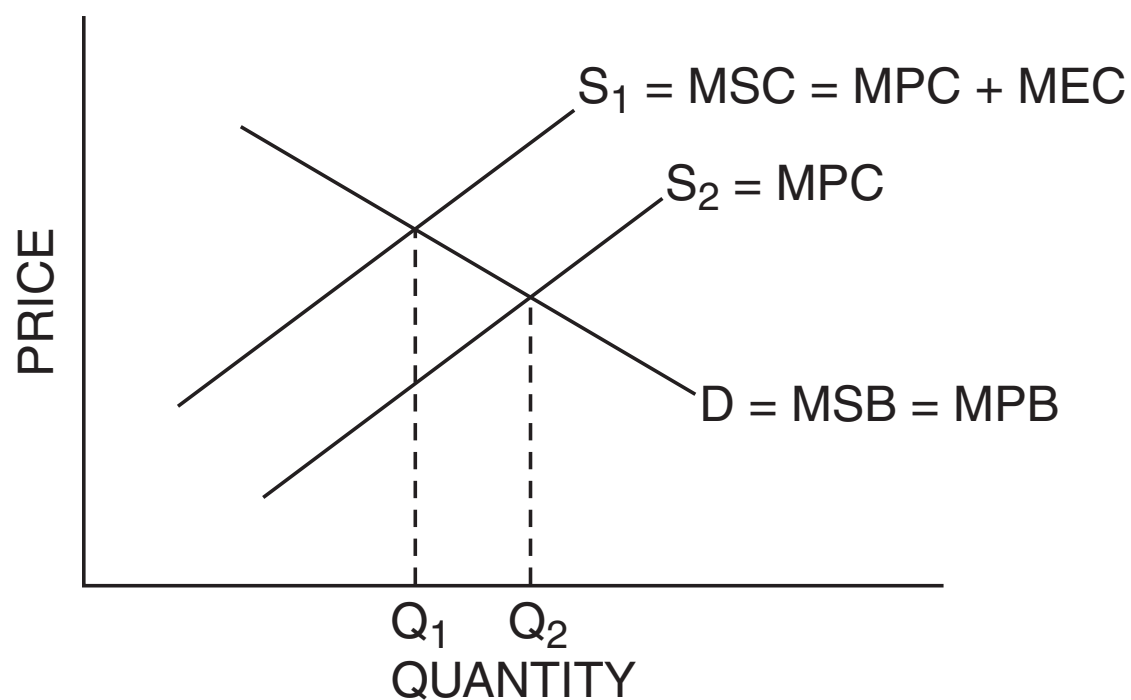


The Economic Functions of Government

1. Enforce laws and contracts.
2. Maintain competition.
3. Redistribute income. Provide an economic safety net.
4. Provide public goods:
 - Nonexclusion
 - Shared consumption
5. Correct market failures:
 - Provide market information.
 - Correct negative externalities.
 - Subsidize goods with positive externalities.
6. Stabilize the economy:
 - Fight unemployment.
 - Encourage price stability.
 - Promote economic growth.

Illustrating a Negative Externality



MSC = marginal social cost

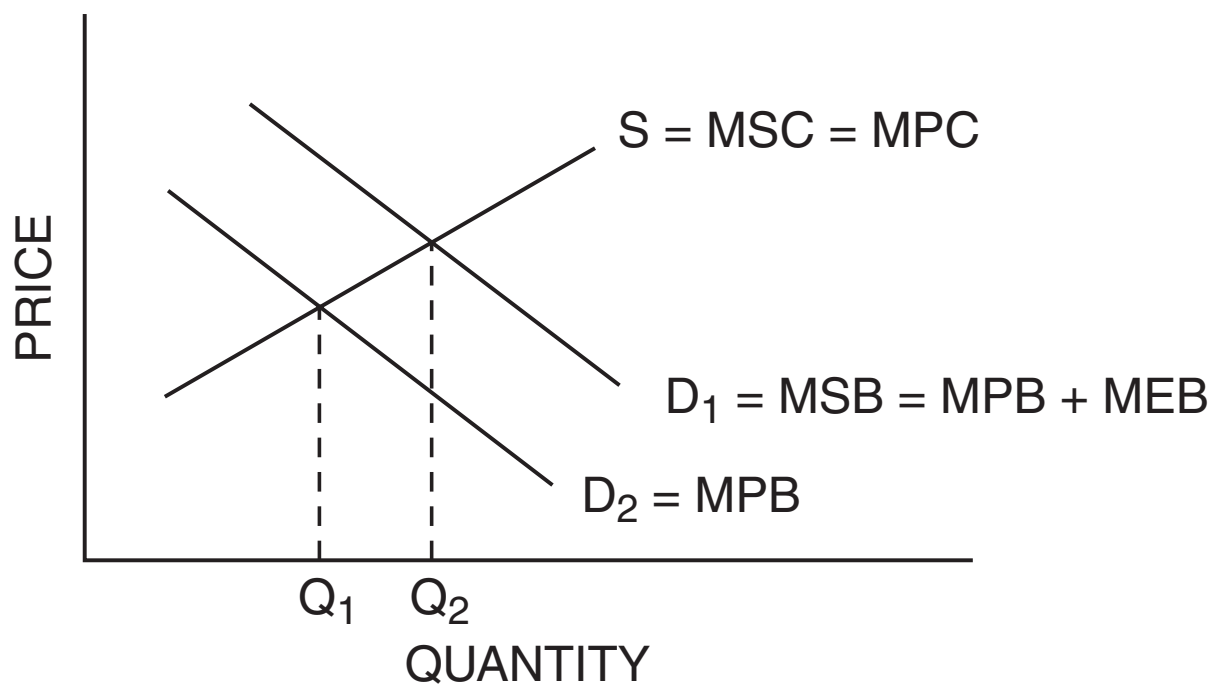
MPC = marginal private cost

MEC = marginal external cost

MSB = marginal social benefit

MPB = marginal private benefit

Illustrating a Positive Externality



MSB = marginal social benefit

MPB = marginal private benefit

MEB = marginal external benefit

MSC = marginal social cost

MPC = marginal private cost