

THIRD-PARTY COSTS AND BENEFITS OF THE OIL INDUSTRY

Subject Area: Economics

Suggested Grade Level: High School

Time Required: One to two class periods

Objectives:

1. Define and give examples of third-party costs and benefits.
2. Explain why third-party costs or benefits can lead to overproduction or underproduction.
3. Analyze the effectiveness of government policies designed to remedy problems caused by third-party costs and benefits.

Rationale:

Government intervention in the marketplace is often justified as a way to correct market or socioeconomic problems that arise from third-party costs or benefits. Students need to be able to discern whether or not the subsequent government intervention related to these market externalities is warranted and what the effect of this intervention is on the economic structure. An electorate that can critically analyze these issues will help in the formation of a more prudently constructed public policy.

Activities:

1. Discuss the economic concepts of third-party costs and third-party benefits in market structures. Be sure to help students comprehend that consumers as well as producers are involved in the process of imposing externalities on markets.

Use examples from the tobacco market to show third-party costs and benefits. Smell, litter, secondhand smoke, health hazards are all clear costs. The challenge will be for the students to see if they can find any third-party benefits to this market.

2. Have students brainstorm for 3 to 5 minutes on all of the third-party costs and benefits associated with education. List student responses on the board and use this as a means for a directed discussion of the concepts.
3. Distribute the student handout on third-party costs and benefits in the oil industry. Have students answer the questions and then discuss their responses - checking for an understanding of the concepts being studied.

Assessment:

Use the student handout on decision-making as a cooperative learning exercise. Collect the students' work to check for comprehension of the concepts studied.

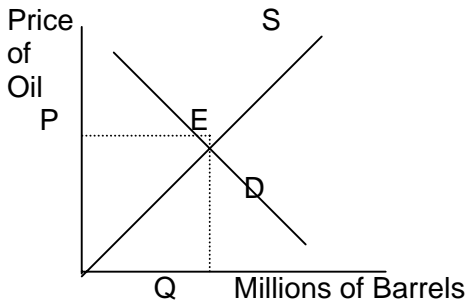
NAME: _____

THIRD-PARTY COSTS AND BENEFITS IN THE OIL INDUSTRY

Give three examples of third-party costs in the oil industry. (ex. air pollution)

1. _____
2. _____
3. _____

Choose 1 of your costs above and on the supply and demand curves below show how the market would be affected (by shifting either the supply or demand curve) if these costs were now accounted for.

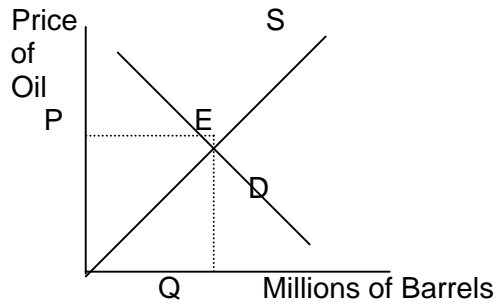


Is more or less oil now produced? _____
Is the price of oil higher or lower? _____
Is the product being "overproduced" or "underproduced"? Explain why.

Give three examples of third-party benefits in the oil industry. (ex. increased tax. revenues used for schools)

1. _____
2. _____
3. _____

Choose one of your benefits above and on the supply and demand curves below show how the market would be affected (by shifting either the supply or demand curve) if these costs were now accounted for.



Is more or less oil now produced? _____
Is the price of oil higher or lower? _____
Is the product being "overproduced" or "underproduced"? Explain why.
