

YouTube Title: “BP: Rich Fish” <http://www.youtube.com/watch?v=HtfevVB5eBk>

Video Length: 1:14 minutes

Chapter 4: The Role of Government, p. 70

Topic: Market Failure, p. 71

Key Terms: Market failure, externalities, production decision

Learning Objective 3: The meaning of government failure.

Summary

A BP Representative explains how the oil spill was just a way of sharing wealth with marine life.

Economic Application

This clip can be used to illustrate that externalities exist in production. The 2010 BP oil spill in the Gulf of Mexico created devastating impacts to the environment. The damage inflicted on the people, ocean, tourism and fishing industries, animals, birds, fish, etc. was external to the cost calculations of the firm.

Multiple-Choice Question

What is NOT true about external costs?

- a) External costs equal social costs minus private costs.
- b) When external costs exist, firms will not operate in a way that maximizes social welfare.
- c) The market overproduces goods with external costs.
- d) External costs create a flawed price signal for producers.
- e) Where external costs exist, production should be halted.

Discussion Question

What are the external costs of coastal oil drilling? What is the efficient level of drilling?