

Positive Externalities

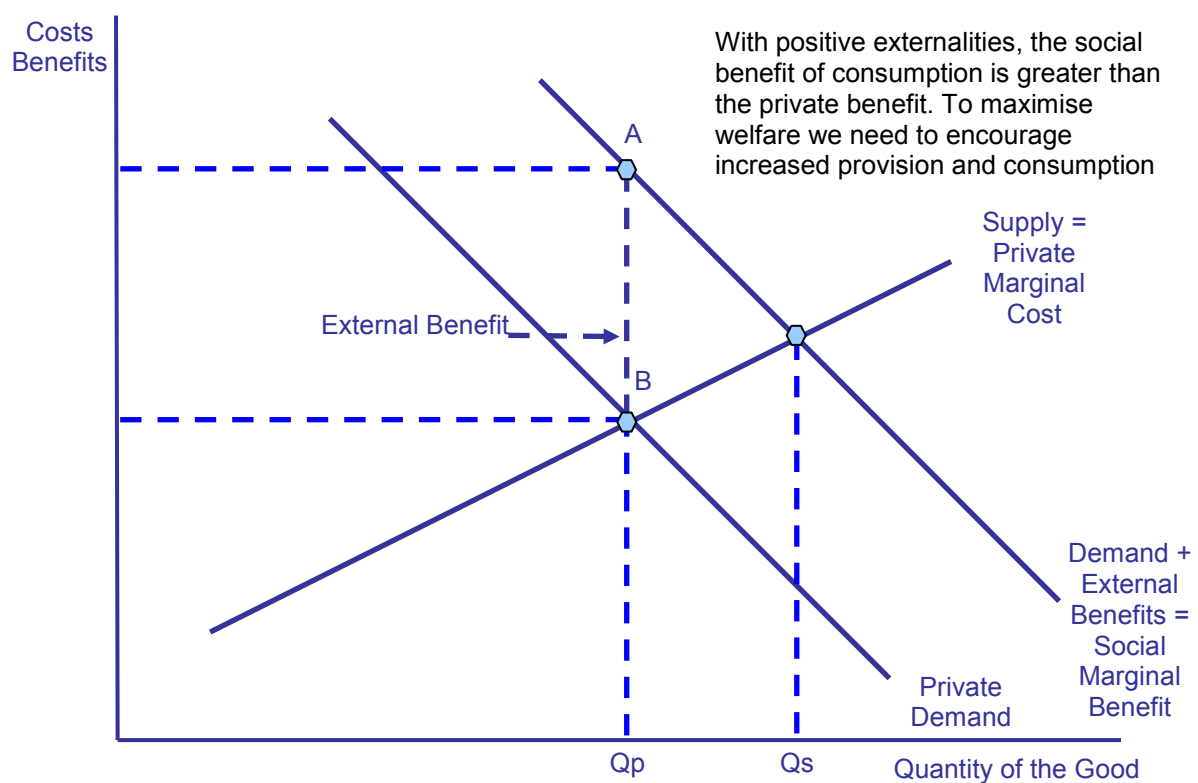
There are many occasions when the production and/or consumption of a good or a service creates [external benefits](#) which boost social welfare.

Examples of positive externalities

- External benefits from development of [renewable](#) energy sources such as [wind power](#)
- External benefits from [other new production technologies](#)
- External benefits from vaccination / [immunisation](#) programmes
- Social benefits from [providing milk to young schoolchildren](#)
- Social benefits from the [maintenance of a post-office network](#)

Positive externalities and market failure

Where positive externalities exist, the good or service may be **under consumed** or **under provided** since the free market may fail to value them correctly or take them into account when pricing the product. In the diagram above, the normal market equilibrium is at P1 and Q1 – but if there are external benefits, the Q1 is an output below the level that maximises social welfare.



There is a case for [government intervention](#) in the market designed to increase consumption towards output level Q2 so as to increase economic welfare.

The economics of vaccination

What good is a vaccination? Obviously there are benefits for the person receiving the vaccine, they are less susceptible to disease and children in particular are more likely to attend school and earn more income over their lifetime. A study from the World Bank finds that comprehensive vaccination programmes have a positive effect on savings and wealth and encourage families to have fewer children which lead to less demographic



pressures on scarce resources. More subtly, it can be good for an entire population since, if enough of its members are vaccinated, even those who are not will receive a measure of protection. That is because, with only a few susceptible individuals, the transmission of the infection cannot be maintained and the disease spread.

The dispassionate economic case for vaccination, therefore, looks at least as strong as the compassionate medical one. Spending on vaccination programmes appears to be a sound social investment for the future.

Source: Adapted from the Economist, October 2005

