

PIGOUVIAN TAXES

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WHAT IS A PIGOUVIAN TAX?

- Reduce negative externalities, such as pollution, environmental degradation, and traffic congestion.
- Imposed by the government
- Encourages individuals and businesses to engage in less harmful behaviours

WHAT IS A NEGATIVE EXTERNALITY?

- Externality : cost or benefit that is caused by one party but financially incurred or received by another
- Positive or negative

HOW DOES PIGOUVIAN TAX WORKS?

- Governments determine activities that produce negative externalities
- Estimation of the social cost
- The tax is set by the government equal to the external cost per unit of the activity

BENEFITS/CHALLENGES

- Discourage the factory from polluting
- Encourages innovation
- Government cannot impose the correct Pigouvian tax
- Companies and individuals may find ways to avoid the tax
- Affect low-income households
- Impact on competitiveness

CONCLUSION

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