

# Economics Intervention and Externalities Essay

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Production, Consumption, and venture decisions of households, firms and individuals frequently affect others not involved in the actions. At times these indirect effects are minuscule. But when they are large they can become an issue—these are called externalities. Externalities are one of the major reasons governments intervene in the economic sphere. A positive [externality](#) is a benefit acquired by a 'third party' due to an economic transaction. Whereas, a negative externality is a cost that is suffered by the third party. External costs lead to market failure. This essay will evaluate a measure imposed by the government in order to combat a negative externality. Since the start of January, Netherlands has increased the legal drinking age in the country from 16 years to 18 years (Xuereb). The government simply tried to internalize the externalities caused due to drinking, by inflicting a new law that would change the legal drinking age. The government believed that this would be beneficial to the society. The reasons that led to this change were the increased rates of alcohol consumption amongst teenagers and the harmful effects of alcohol which have become a major concern.

Externalities caused by consumption of alcohol are considered to be a cost that fall upon other people rather than the ones who choose to drink. For example, if someone's possessions are damaged due to a drunk individual, or when a poverty stricken man is injured as a result of his drinking habit, must be cared for in a hospital, whose costs are

transferred to the public. From an economic point of view, externalities are expected to fall outside the individual efficacy estimation in making the choice to drink.

#### NEGATIVE EXTERNALITY

The Netherlands is a count...

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...al Drinking Age Increased to 18." Netherlands Tourism. Web. 07 Mar. 2014.

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