* Positive Externality in Consumption :
This case is illustrated in figure 4.
The MSC curve is the supply curve.
The demand curve DD is the MPB
curve. Since there are external
benefits, MSB > MPB and MSB curve
lies above the demand curve.
The socially optimal
output is given by Q_0 where
MSB = MSC. Without any intervention,
the quantity produced is Q_1.
and price is P_1. Thus, there
under-production as compared to
the socially optimal level.
If Q_0 is produced at a price P_0,
the marginal cost of production
will be C_0. Then the
consumers needs to be given
subsidy equal to $(C_0 - P_0)$.

Part of the subsidy $(C_0 - P_0) \times Q_0$
could possibly be collected from
those reaping the external benefits
arising from the consumption
of this good.

The net benefit to society from the subsidy is ~~met~~ measured by the area AEH triangle in figure 4. It is the excess of social benefit over social cost for the output range Q_1 to Q_0.

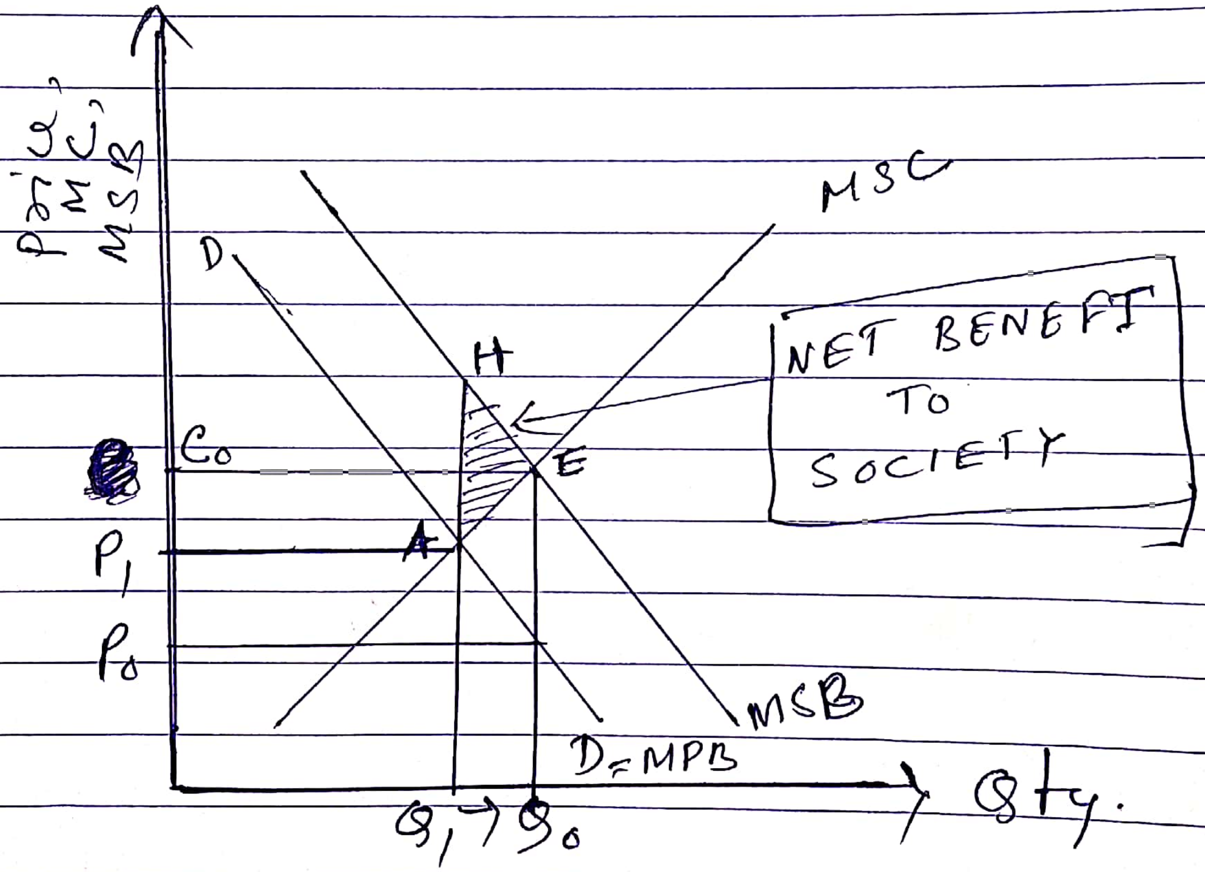

Fig. 4

[Positive Externality in Consumption]