**Case Study – Chemical Firm expands**

* A chemical firm plans to open a new chemical factory. It has chosen a site which it believes is the most profitable one. In coming to this decision, the managers considered only the costs and benefits to the firm itself. These are called **private costs** and **private benefits.** These are likely to be:

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| --- | --- |
| **Private Costs** | **Private Benefits** |
| Cost of Land | The money made from the sale of the chemical products |
| Cost of Construction |  |
| Labour Costs |  |
| Costs of running the plant when it has been built |  |
| Transport Costs of materials and completed products |  |

* Unfortunately, the site chosen is near a housing estate. It is currently part of a park used by local residents. Waste products from the factory will be tipped into local rivers or quarries.
* The factory will create a lot of noise and fumes. The area is one with a high level of unemployment – people’s incomes are below the national average.
* Before deciding whether or not to grant planning permission the government also considers the **external costs** and **external benefits** – that is, the impact on the rest of society other than the business itself.

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| **External Costs** | **External Benefits** |
| Waste products will cause pollution | Jobs will be created |
| Smoke and fumes may damage the health of residents | Other firms may move into the area to provide services to the chemical firm |
| Parkland cannot now be used by local residents | The chemical factory will pay taxes – government might increase spending on social projects e.g. more hospitals. |

* The government will try to give a value to all these costs and benefits. This is called cost-benefit analysis. This is not easy to do. For example, what is the cost of losing parkland for children to play on? Estimates are made and then the total costs and benefits of the decision are added up.
* Private costs, added to external costs, give a total **social cost**
* Private benefits, added to external benefits, give a total **social benefit** figure
* If the total social benefit is greater than the total social cost, the scheme is likely to be accepted. If, however, the total social cost is greater than the total social benefit, the government will probably refuse permission.

**Activity 27.1**

Read the case study on the previous slides.

1. What is meant by the term ‘external costs?’

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1. Explain why any **two** stakeholder groups will be worried about the external costs from a new chemical factory.

Stakeholder 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
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Stakeholder 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
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1. Explain why any **two** stakeholder groups will benefit from the possible external benefits from the new chemical factory.

Stakeholder 1: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
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Stakeholder 2: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
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1. Assume you are the Government Minister responsible for planning decisions. Would you allow the new chemical factory to be built or not? Explain your answer.

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