

**41. Correct. The answer is true.** If the refinery originally has the property rights, it will pollute up to D where the marginal benefit of pollution is 0. The total benefits to the polluter would be the area A\$D. The total loss from pollution for the sufferers of pollution would be the area BGD. With an optimal tax of AE, pollution would fall back to C and the polluter would lose CFD and the taxes of AEFC compared to the original situation. Damage sufferers would gain CFGD.

If damage sufferers had the property rights, pollution would be at B. The polluter would gain A\$JB from pollution, the sufferers would suffer no damage. If pollution were allowed with an optimal tax of AE, the sufferers would lose BFC and the polluter would gain area BJFC – tax revenues of AEFC.

