

## Market Failure

1. Define the term "public good."

(4 marks/4 minutes)

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2. List any 4 examples of market failure.

(2 minutes/2 minutes)

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3. Are gun incidents and flu shots both examples of externalities? Explain your answer. (5 marks / 5 minutes) (note: flu shot is an injection to prevent the outbreak of the flu virus)



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Syllabus Ref: 1. 4  
Syllabus Items: 34-41

## Webnote 1491

4. Draw a diagram to show how an indirect tax can be used to show how a demerit good can be regulated. Diagram must have a title and be fully labeled. Tip! Use 2 diagrams - one for the externality and the other for the market action by government. (2 marks/ 4 minutes)

Fig A:

Fig B:

Remove  
text box  
for  
diagrams



7. Read this excerpt from Yahoo below. Can you use externality theory to decide if the ownership of guns should be regulated? Use negative externalities theory to make your argument. (4 marks/ 8 minutes)

Most people are either totally against guns or find a complete necessity for them. The Constitution of The United States of America ensures us the right to bear arms, so there should be no debate about it, right? Unfortunately the issue is not so simple. We have to take into consideration age, criminal record, and knowledge of [firearms](#) safety. If everybody with a trigger finger owned a firearm, America as we know it would cease to exist. A common everyday dispute would be resolved by a quick shootout; the loser going home in a body bag. There is a necessity for the ownership of firearms to be regulated, and laws are needed to protect those who genuinely use firearms as a last resort for self-defense.

Source: <http://voices.yahoo.com/social-issues-gun-control-2nd-ammendment-2216734.html>

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8. What do 'common access resources' and 'sustainable development' have in common? (4 marks/8 minutes)

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9. Draw a positive externality of consumption and a negative externality of consumption and list the differences between the two diagrams.

Remove for diagram

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10. Draw a positive externality of production and a negative externality of production and list the differences between the two diagrams.

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**Webnote 1491**

11.

**Plan an answer to this question: 10 minutes**

Use a paragraph plan and put in diagrams you could use and key words. Be sure to make a plan that defines the key terms, uses the correct diagrams, provides an example and focuses exactly on answering the question (answerability)

**Exam focus****MAY 2002 HL 2**

**2. Explain how the use of expenditure / indirect taxation might be an appropriate response to the problem of negative externalities.**

**P1****P2****P3**