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| | | | 1.4 Market failure Big Questions for webnote 99: <ol style="list-style-type: none"> 1. With expert use of diagrams give 2 detailed examples of how market failure takes place. 2. Explain 3 of the possible solutions for market failure? 3. Select one type of market failure. Evaluate the possible solutions for this market failure and decide which are the most effective solutions. | Blink c 12 | <u>Example</u> | <u>U-tube</u> | | |
| The meaning of market failure | | | | | | | | |
| 34 | | Market failure as a failure to allocate resources efficiently | <ul style="list-style-type: none"> • Analyse the concept of market failure as a failure of the market to achieve allocative efficiency, resulting in an overallocation of resources (overprovision of a good) or an under-allocation of resources (under-provision of a good) | Blink c 12 | <u>Example</u> | <u>U-tube</u> | 4 | See the 'blue box' in web 224 |
| Types of market failure | | | | | | | | |
| 35 | | The meaning of externalities | <ul style="list-style-type: none"> • Describe the concepts of marginal private benefits (MPB), marginal social benefits (MSB), marginal private costs (MPC) and marginal social costs (MSC). • Describe the meaning of externalities as the failure of the market to achieve a social optimum where $MSB = MSC$. | Blink c 12 | <u>Example</u> | <u>U-tube</u> PAJ | 3 | See web 224 |
| 36 | | Negative externalities of production and consumption | <ul style="list-style-type: none"> • Explain, using diagrams and examples, the concepts of negative externalities of production and consumption, and the welfare loss associated with the production or consumption of a good or service. • Explain that demerit goods are goods whose consumption creates external costs. • Evaluate, using diagrams, the use of policy responses, including market-based policies (taxation and tradable permits), and government regulations, to the problem of negative externalities of production and consumption | Blink c 12 | <u>Example</u> | <u>U-tube</u> PAJ | 3 | 253 225 226 |
| 37 | | Positive externalities of production | <ul style="list-style-type: none"> • Explain, using diagrams and examples, the concepts of positive externalities | Blink c 12 | <u>Example</u> | <u>U-tube</u> | 4 | 252 |

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| | | | and consumption | <p>of production and consumption, and the welfare loss associated with the production or consumption of a good or service.</p> <ul style="list-style-type: none"> • Explain that merit goods are goods whose consumption creates external benefits. • Evaluate, using diagrams, the use of government responses, including subsidies, legislation, advertising to influence behaviour, and direct provision of goods and services. | | | | | |
| 38 | | | Lack of public goods | <ul style="list-style-type: none"> • Using the concepts of rivalry and excludability, and providing examples, distinguish between public goods (non-rivalrous and non-excludable) and private goods (rivalrous and excludable). • Explain, with reference to the free rider problem, how the lack of public goods indicates market failure. • Discuss the implications of the direct provision of public goods by government. | Blink c 12 | <u>Example</u> | <u>U-tube</u> | 5 | 252 |
| 39 | | | Common access resources and the threat to sustainability | <ul style="list-style-type: none"> • Describe, using examples, common access resources. • Describe sustainability. • Explain that the lack of a pricing mechanism for common access resources means that these goods may be overused/depleted/degraded as a result of activities of producers and consumers who do not pay for the resources that they use, and that this poses a threat to sustainability. • Explain, using negative externalities diagrams, that economic activity requiring the use of fossil fuels to satisfy demand poses a threat to sustainability. • Explain that the existence of poverty in economically less developed countries creates negative externalities through over-exploitation of land for agriculture, and that this poses a threat to sustainability. • Evaluate, using diagrams, possible government responses to threats to sustainability, including legislation, carbon taxes, cap and trade schemes, | Blink c 12 | <u>Example</u> | <u>U-tube</u> | 5 | 252 |

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| | | | and funding for clean technologies. • Explain, using examples, that government responses to threats to sustainability are limited by the global nature of the problems and the lack of ownership of common access resources, and that effective responses require international cooperation. | | | | | |
| 40 HL Only | | Asymmetric information | <ul style="list-style-type: none"> • Explain, using examples, that market failure may occur when one party in an economic transaction (either the buyer or the seller) possesses more information than the other party. • Evaluate possible government responses, including legislation, regulation and provision of information. | Blink c 8 | <u>Example</u> | <u>U-tube</u> | 4 | |
| 41 HL Only | | Abuse of monopoly power | <ul style="list-style-type: none"> • Explain how monopoly power can create a welfare loss and is therefore a type of market failure. • Discuss possible government responses, including legislation, regulation, nationalization and trade liberalization. | Blink c 8 | <u>Example</u> | <u>U-tube</u> | 4 | |

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Theory of knowledge: potential connections

To what extent is the obligation to seek sustainable modes of consumption a moral one?

What knowledge issues are involved in assessing the role of technology in meeting future patterns of consumption and decreasing

the negative externalities of consumption associated with fossil fuels?

What are the knowledge issues involved in determining what is a rational cost to pay for halting climate change?

How could we know if economically more developed countries are morally justified in interfering in the development of economically less developed countries on the grounds of climate change?

How can we know when climate change is sufficiently serious to warrant government interfering in the freedom of its citizens to consume?

How can we calculate the external costs of producing and running items such as light bulbs or motor vehicles? For example, low energy light bulbs consume less energy but they require more energy to produce, and some brands contain materials that are harmful to the environment such as mercury.

Hybrid cars consume less energy to run but consume more energy to produce.

What are the problems in knowing whether climate change is produced by human activity?