Market failure

• Definition: A market failure is a situation where free markets fail to allocate resources **efficiently**. The whole of society is not benefitting as well as it could.

• Can you think of an example where people are not getting what they should?

• Can you think of an example where one part of society is getting **MORE** than they should?

What could cause this?
Causes of market failure

Negative Externalities
These are the effects caused while businesses and individuals are producing their goods and services.

For example: car makers and buyers do not take account of the pollution and traffic the cars may cause. This has a negative effect on society.
Causes of market failure

Positive Externalities
This is when a resource that could benefit society is not being used fully.

For example: all school children can be vaccinated against diseases but some may refuse them. This is a benefit that is not being fully used.
Group work

In groups you shall be given a type of market failure. I would like you to discuss and make notes on the following.....

Explain the market failure
Explain the effects does it has on society
Give examples of the market failure
  • Imperfect information or information failure
  • Lack of merit goods/public goods
  • Too many de-merit goods
  • Monopolies
  • Immobility of labour
  • Unequal distribution of income
Causes of market failure

**Information failure** occurs when people have inaccurate, incomplete, uncertain or misunderstood data and so make potentially 'wrong' choices.

- Risks from using tanning salons
- Addiction to painkillers & other drugs
- Gaining entry to elite degree courses
- Complexity of pension schemes
- Uncertain quality of second hand products
- Knowledge of the nutritional content of foods
- Cowboy builders or other “rip-off merchants”
- Tourist Bazaars or buying and selling antiques
Examples of Merit Goods

- Health programmes
- Early years education e.g. nursery provision
- Subsidised Bike Schemes
- Public libraries / community spaces
- Museums and Galleries
- Free school meals / nutritional advice
Examples of De-Merit Goods

High Caffeine Energy Drinks
High-fat, high-sugar & high-salt foods
Violent films and games

Hands-free mobile phones in vehicles
Alcohol fraud and binge drinking
Tobacco products

Key point: Arguments about what is a de-merit good involves making value judgements
E-Cigarettes: Are they a Merit or a De-Merit Good?

16% of the population use e-cigarettes. However, only 0.14% of the population use e-cigarettes having never smoked before. The majority of users of e-cigarettes are current smokers or people who have given up smoking. (Source of Data: ONS, October 2014).

Private Costs of E-Cigarette Consumption

External Costs of E-Cigarette Consumption

Private Benefits of E-Cigarette Consumption

External Benefits of E-Cigarette Consumption
Causes of market failure

Public goods
A public good is an item consumed by society as a whole and not necessarily by an individual consumer. They are non-rivalrous and non-excludable.

*What do you think these words mean?*

Law enforcement is also an example of a public good.

The private sector in a free-market cannot profitably supply to consumers **public goods** that are needed to meet people's needs and wants. It is usually up to the government to supply them.
Causes of market failure

Monopolies

A monopoly is a market containing a single firm that has or is close to total control of the sector. Why is this a problem?

Market dominance by monopolies can lead to under-production and higher prices than would exist under conditions of competition, causing consumer welfare to be damaged.
Causes of market failure

**Immobility of labour**

What happened to the mine workers when the mines closed down?

What happened to the Ford workers when production moved abroad?

When workers do not have the skills needed by society or available workers are not in the right place for where there is work.

**Factor immobility** causes unemployment and a loss of productive efficiency
Causes of market failure

Unequal distribution of income
In the UK the way wealth is distributed is not equal. This is because it is a mixed economy where individuals can set up businesses and make a profit. This causes some people to have more wealth than others. This means the economy is not working efficiently.
Market failure and government intervention

How do you think the government can intervene in these market failures?

- Laws and regulations
- Taxation
- Subsidies

In pairs explain how these actions could resolve these market failures.
GOVERNMENT BUDGET

**DEFICIT**
- When the government spends more than it gains in taxation

**SURPLUS**
- When the government receives more in taxation than it spends
As a summary to this lesson, complete the crossword. To help you the key words are included.

This activity will help to develop your familiarity with the key terms and practice correct spelling.
Quiz

• Get into teams of fours
• In your teams write down 5 questions based on today’s lesson
• You will be asking each other questions
• Make sure YOU know the answers!
Peer & Self Assessment

When peer assessing it is important to be constructive by giving positive points as well as areas to develop.

• Complete the peer feedback section on the feedback sticker.

• Label the AO’s in the margin where appropriate.

• Use the following annotations when marking work.

<table>
<thead>
<tr>
<th>Sp = Spelling</th>
<th>C = Capital Letters</th>
<th>P = Punctuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>// = Paragraphing</td>
<td>G = Grammar</td>
<td>V = Vocabulary choice</td>
</tr>
<tr>
<td>A = Apostrophes</td>
<td>Sr = Speech rules</td>
<td>^ = A word missing</td>
</tr>
<tr>
<td>R = Ruler</td>
<td>U = Underline</td>
<td></td>
</tr>
</tbody>
</table>

Two ticks indicate clear, accurate or striking writing.
Peer Assessment Task

- The last part of the feedback sticker asks the students to set their peer a task based on the lesson, that they can complete at the beginning of next lesson. The teacher can assist students in giving appropriate tasks by writing three questions of varying difficulty and telling the students to choose one as the task for their peer.
My Self Review

• Reflect on how successfully you have used your exam skills to complete the assessment.

• Consider which exam skills you are still unsure about using and need to develop next lesson.

You have 5 minutes
My Homework Log

Read your teacher feedback and complete the following:

• Ask any questions to clarify feedback, targets or knowledge gaps.
• Complete any literacy corrections.
• Complete any tasks that you have been set.

You have 5 minutes