3. **Common access resources** –Resources that lack ownership, and which are difficult to exclude other people from using them. This can lead to their overuse or depletion. Examples include forestry and fisheries.

Sustainability – the ability of meeting the needs of the present without compromising the ability of future generations to meet their own needs.

How does common access resources lead to market failure?

The depletion or degradation of common access resources poses a threat to sustainability and therefore leads to market failure.

Market failure by common access resources can be illustrate with a negative externality of consumption diagram.

Solutions and responses to threats to sustainability

⇒ **Legislation -** Governments can ban or limit the amount of pollution firms can produce, as well as controlling production methods. An example is the EU quota on fishing to avoid the overuse of this common access resource.

⇒ **Carbon taxes and cap and trade schemes** would limit the amount of pollution produced.

⇒ **Funding clean technologies**

⇒ **Extend property rights**

However, one must note that due to the global extent of the problem, **international cooperation** is needed in order to tackle the issue effectively. International treaties and agreements may be created to respond to threats to sustainability. Examples include the Kyoto Protocol and the Copenhagen Accord.

4. **Asymmetric information** – Market failure may occur when one party in an economic transaction possesses more information than the other party.

Solutions to market failure caused by asymmetric information

⇒ Governments **improving the information flow.** E.g. labelling and awareness campaigns.

⇒ **Legislation** – governments may establish minimum standards of information

⇒ **Regulations** on firms' behaviour to minimise information-related market failures.

5. **Abuse of monopoly power** – Firms with monopoly power are able to restrict output below the competitive ideal and charge higher prices leading to a welfare loss. This would cause market failure.

Solutions to abuse of monopoly power

⇒ **Legislation and regulation** - enforcing competitive laws that include:

- No mergers or acquisitions that increase the monopoly power of any firm
- Tax or fine firms found guilty of anti-competitive practices or even breaking them down into smaller independent firms.

⇒ **Trade liberalisation** – Free trade increases competition leading to increased efficiency and lower prices.

⇒ **Nationalisation**