Revision

1.3 - Market Failure

1.3.1 - Types of market failure

a) Market failure

Def^n - resources are inefficiently allocated due to imperfections in the working of the market mechanism

- markets may lead to over/under production of goods - partial market failure
- markets may not exist (missing markets), leading to no production of good or service - market failure

b) Types of market failure

- Externalities - prices/profits should give accurate signals allowing markets to allocate resources efficiently, however, these can be misleading
- underprovision of public goods - easy to get for free, people don't pay, leads to under provision

Information gaps - ~~ass~~ asymetric information - when one party, either buyer or seller has more information than the other

1.3.2 - Externalities

a) b) Private cost and benefit - the cost or benefit of an activity to an individual economic unit, e.g consumer

Social cost and benefit - the cost or benefit of an activity to society as a whole

External cost and benefit - the cost or benefit to third party stakeholders, negative ~~+~~/ ~~pos~~ positive externality

c) - external cost of production