**Chapter 5 Market Failure**

1. Sources of Market Failure

a) Why market failure occurs: too much or too little of a good is produced and/or consumed compared to the socially optimal level of output.

b) Sources of market failure:

• externalities

• the free-rider problem; non-provision of public goods

• imperfect market information

• moral hazard

• speculation and market bubbles

2. Positive and negative externalities

a) The distinction between private benefits, external benefits and social benefits.

b) The distinction between private costs, external costs and social costs.

c) The distinction between:

• external benefits of production

• external benefits of consumption

• external costs of production

• external costs of consumption.

d) The use of diagrams, using marginal analysis, to illustrate:

• the external benefits from consumption

• the external costs from production

• the distinction between the market and social optimum positions; identification of the welfare loss or gain areas.

e) The impact of externalities in various contexts:

• transport

• health

• education

• environment

• financial

3. Non-provision of Public Goods

a) The distinction between public and private goods:

• private goods: rival and excludable

• public goods: non-rival and non-excludable.

b) Why public goods may not be provided by the private sector making reference to the free-rider problem.

4. Imperfect Market Information

a) The distinction between symmetric and asymmetric information.

b) The significance of information gaps.

c) How imperfect market information may lead to a misallocation of resources in various contexts:

• healthcare

• education

• pensions

• insurance

5. Moral Hazard

a) How moral hazard can occur.

b) The impact of moral hazard on consumers, producers, workers

and governments in:

• insurance

• banking.

6. Speculation and Market Bubbles

a) How market bubbles may arise.

b) The impact of market bubbles on consumers, producers, workers and governments in various contexts:

• housing

• stocks and shares