## Market Failures

1. Market Failures – More/less than the efficient amount
   1. Public Goods
      1. Public goods had two inherent characteristics
         1. Non-rival
            1. Many people can enjoy the good at one time
         2. Non-exclusive
            1. You can’t exclude anyone
            2. Free-rider problem
      2. Given the above the market has no incentive to produce the good, you get the inefficient outcome
      3. Examples:
         1. National defense, national parks, police, fire stations
   2. Externalities
      1. Whenever a third party incurs a cost or receives a benefit of some sort
      2. These may be positive *OR* negative
      3. Positives are called spill-over benefits
      4. Negatives are called spill-over costs
      5. Examples:
         1. Pollution, whether air, noise, water pollution.
      6. Cigarette Example
         1. You are in a restaurant and someone is smoking a cigarette, it makes way to you – you are suffering the consequences of someone smoking that cigarette but you didn’t consume it.
      7. Example of good
         1. Education
            1. Does the benefit of going to higher education just benefit the individual or does society as a whole benefit?
         2. Vaccinations
            1. Is it just the individual who gets the shot who benefits?
            2. If everyone gets the shot will the person who didn’t get the shot reduce the chance of getting sick
      8. Positive example:
         1. Christmas light example that he talked about in class
         2. The difference between MPB (Marginal Private Benefit) and MSB (Marginal Social Benefit) is called the externality.
         3. MPC=MSC
         4. Efficient amount is MSB=MSC
            1. In this example the efficient amount is higher than when MPB=MSC
            2. Homeowner has no reason to produce the efficient amount, thus it is a market failure.
            3. What could make it efficient?

Subsidization

If education was not subsidized by the government then most people wouldn’t be educated due to the high cost.

* + 1. Negative example:
       1. Farmer example
       2. The pesticide makes the MSC higher than MPC, thus having a negative externality.
       3. In this example they overproduce
    2. Coase Theorem
       1. Under limited circumstance the market may correct the problem itself
       2. This only works if:
          1. Property Rights must be clearly defined
          2. Parties Small
          3. Negotiating costs must be ~$0
  1. Imperfect Information
     1. Asymmetric Information
        1. One side has more information than the other
        2. Health care
           1. Asymmetric information between doctor and patient
           2. If you’re not feeling well and make an appointment with your doctor. The doctor knows more about what is wrong with you, you just follow what your doctor says.
           3. Defensive medicine

A doctor has you do many tests, not just to find out what’s wrong with you but to make sure they don’t miss anything. To protect themselves from lawsuits, they run multiple tests, some even unnecessary. Those additional tests then impose a cost on the system. It leads to over consumption of the good.

* + 1. Example:
       1. Purchasing something only to find out that it was cheaper somewhere else
    2. Lemon laws protect consumers from imperfect information