Government & Economy Reference Sheet

Quick reference for market failures, government intervention types, and tax structures

Market Failures

1. **Public Goods**
   Non-excludable and non-rivalrous - one person's use doesn't reduce availability
   Examples: National defense, street lights, public parks

2. **Externalities**
   Costs or benefits affecting third parties not involved in transaction
   Negative: Pollution, noise | Positive: Education, vaccines

3. **Monopoly Power**
   Single seller with market power to set prices above competitive level
   Examples: Utilities, local cable providers

4. **Information Asymmetry**
   One party has more information than another in a transaction
   Examples: Used car sales, insurance, healthcare

Government Intervention Types

Taxes
Discourage activity, raise revenue

Subsidies
Encourage activity, reduce costs

Price Controls
Set min/max prices (min wage, rent control)

Regulations
Rules on how to produce/sell

Public Provision
Government produces goods directly

Redistribution
Transfer from one group to another

Tax Structures

Type	Description
Progressive	Higher income = higher rate (Federal income tax)
Proportional	Same rate for all (Flat tax, Social Security)
Regressive	Lower income = higher effective rate (Sales tax)

Key Federal Taxes:
`Income Tax` - Progressive brackets (10-37%)
`Social Security` - 6.2% up to cap
`Medicare` - 1.45% on all income

Policy Analysis Framework

Step 1: Identify the problem/market failure

Step 2: List benefits (who gains, how much?)

Step 3: List costs (who pays, how much?)

Step 4: Consider unintended consequences

Step 5: Evaluate alternatives

Step 6: Make recommendation

Key Calculations

Tax Burden %
`(Total Taxes / Income) x 100`

Net Contributor Status
`Services Value − Taxes Paid`
Positive = Net Recipient
Negative = Net Contributor

Remember: Government intervention has trade-offs. Consider efficiency (total economic value) vs. equity (fairness of distribution). Most policies involve winners and losers - the key is whether total benefits exceed total costs and if distribution is acceptable.