Unit: 11.4B-1

MARKET FAILURE

Previous Lesson Recap

(2 min)

The concepts/terms learnt:

- Inefficiency
- Misallocation of resources

Activity 1

(6.47 min)

Topic of the Day

Market Failure

Market failure occurs when freely-functioning markets, **fail to deliver an efficient allocation of resources**.

The social costs of producing the good or service (all of the opportunity costs of the input resources used in its creation) are not minimized, and this results in a waste of some resources.

Group Division

GROUP 1:

Animal World

(3- 4 members)

GROUP 2:

Plant World

(3- 4 members)

GROUP 3:

Human world

(3- 4 members)

GROUP WORK-
PRESENTATION :
GROUP DISCUSSION

Activity 2-Critical Thinking

(25 min)

Preparation Time: 10 min
Presentation: 15 min

Explain how the given areas are affected due to environmental destruction.
Give real world examples to support your answer.

ASSESSMENT
(CRITERIA)

Табыс критерийлері:

	2 балл
Уақытты ұтымды пайдалануы (2 минут)	1 балл
Креативтілігі	2 балл

Reflection

- **What did you learn today ?**
  Чему вы научились сегодня?

Unit: 11.4B-2

Externalities

Spill over effect

The cost or benefit that affects a party (third party) who did not choose to incur that cost or benefit.

Previous Lesson Recap

(2 min)

The concepts/terms learnt:

- Inefficiency
- Misallocation of resources
- Market Failure

Word Search

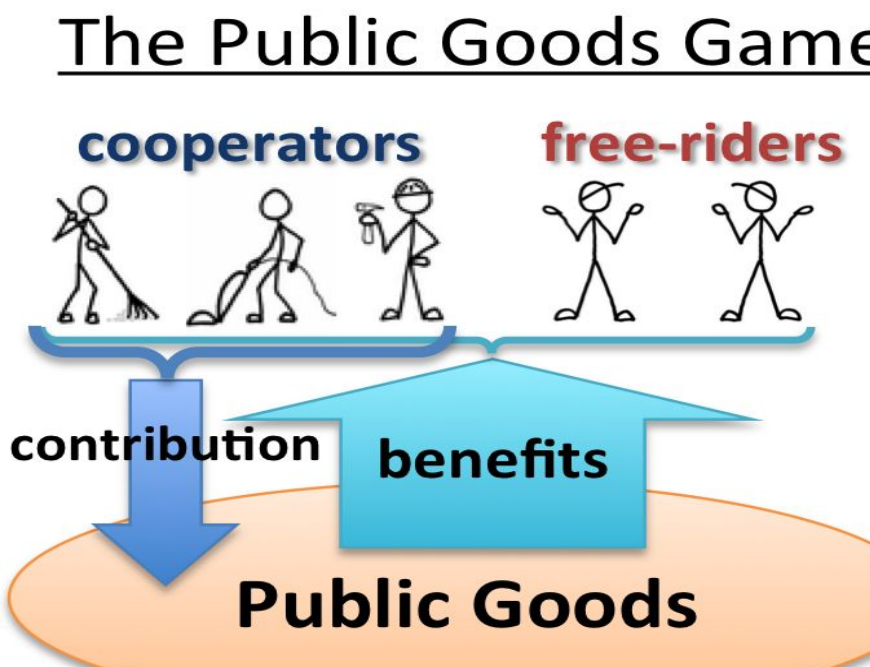
Positive externalities/ External benefits
Negative externalities/ External costs
Private Cost
Private Benefits
Social Cost
Social Benefits
Public Goods
Merit Goods
Property Rights
Factor immobility

Public Goods

Non- Excludability + **Non- Rivalry**

	Excludable	Non-excludable
Rival	**Private goods** Examples: Big Macs Running shoes	**Common resources** Examples: Tuna in the ocean Public park
Non-rival	**Quasi-public goods** Examples: Cable TV Toll road	**Public goods** Examples: National defence Street lighting

Free rider problem



Formula

Marginal Social Cost = Marginal Private Cost + External Cost

MSC = MPC + XC

External Cost = Marginal Social Cost > Marginal Private Cost

XC = MSC > MPC

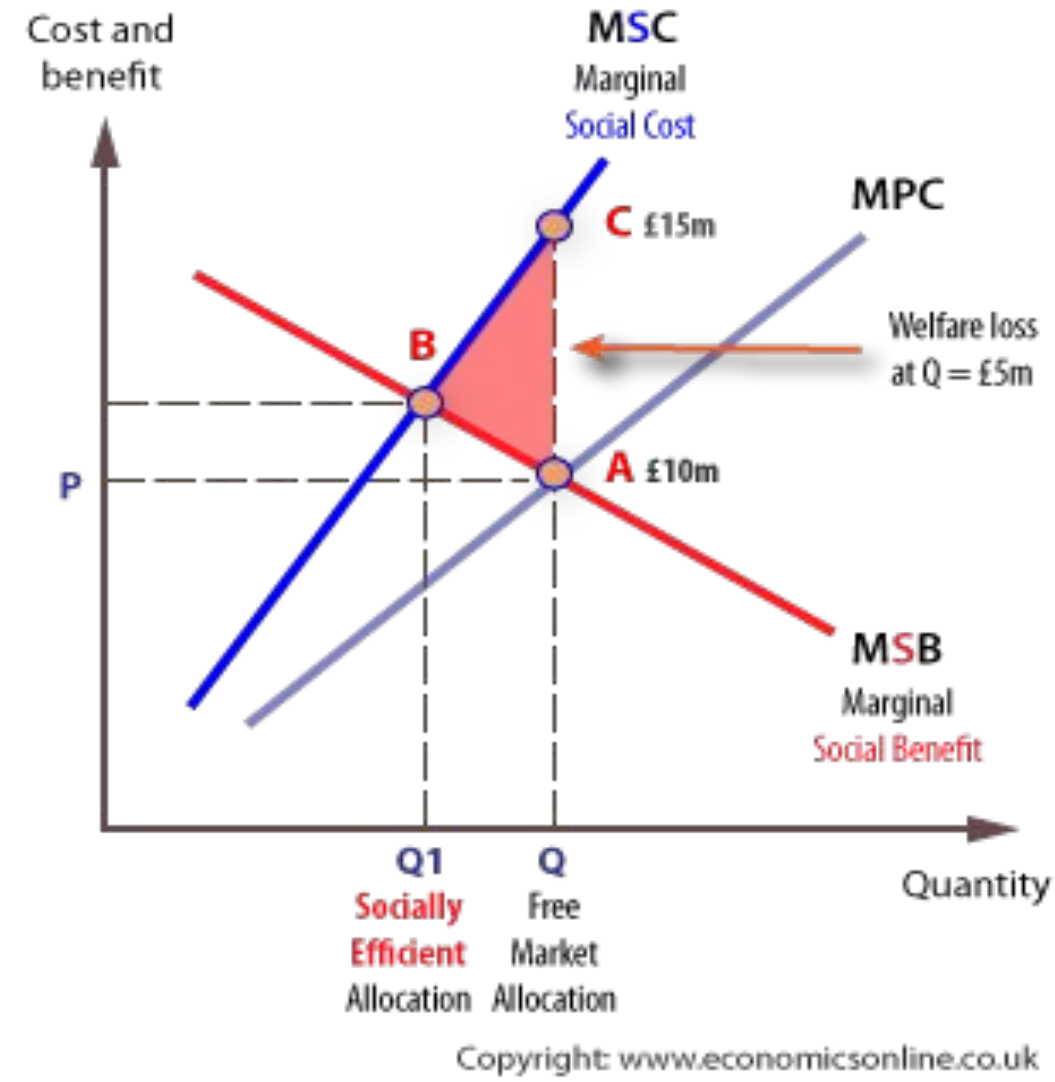
Marginal Social Benefit = Marginal Private Benefit + External Benefit

MSB = MPB + XB

External Benefit = Marginal Social Benefit > Marginal Private Benefit

XB = MSB > MPB

Negative Externalities

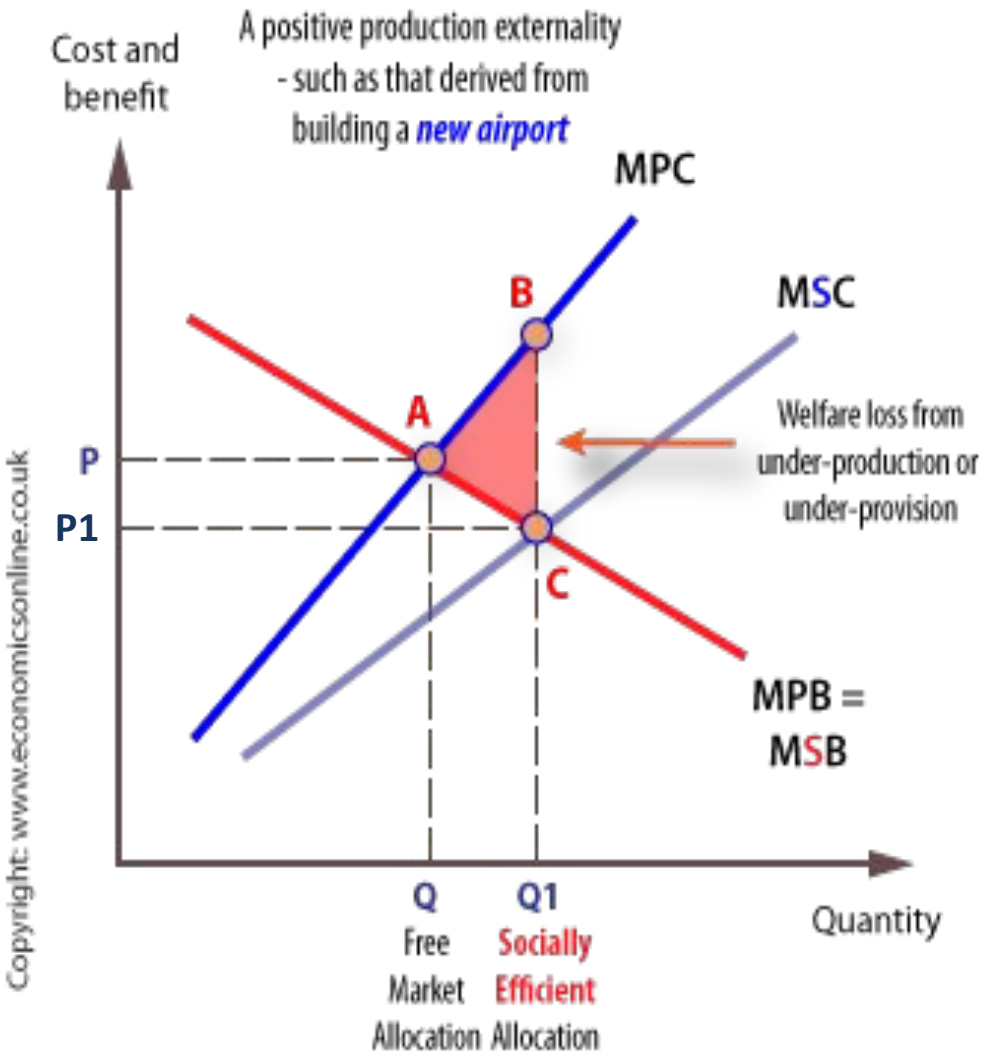


A manufacturer of computers which emits pollutants into the atmosphere, the free market equilibrium will occur when marginal private benefit = marginal private costs, at output Q and price P.
The market equilibrium is at point A. However, if we add *external costs,* the socially efficient output is Q1, at point B.

MSB at A is £5m,
MSCat C is £10m
net welfare loss = £10m - £5m = £5m
Area for welfare loss = ABC.

Therefore, in terms of welfare, markets over-produce goods that generate external costs.

Positive Externalities



The market will end up at price **P** and quantity **Q** as before, instead of the more efficient price $\mathbf{P_1}$ and quantity **Q1** These latter again reflect the idea that the marginal social benefit should equal the marginal social cost, i.e., that production should be increased as long as the marginal social benefit exceeds the marginal social cost. The result in an unfettered market is *inefficient* since at the quantity $\mathbf{Q_1}$, the social benefit is greater than the societal cost, so society as a whole would be better off if more goods had been produced.

vaccination for Small pox:

The MPB < MSB

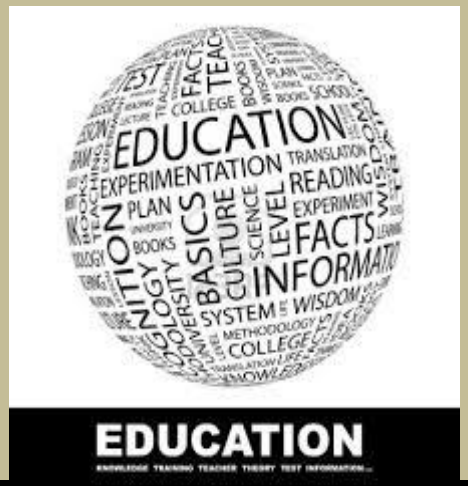
(for example, society as a whole is increasingly protected from smallpox by each vaccination, including those who refuse to participate).

Group Division

GROUP 1:

GROUP 2:

GROUP 3:



GROUP 4:

GROUP WORK-
PRESENTATION :
GROUP DISCUSSION

Activity 2-Critical Thinking

(25 min)

Preparation Time: 10 min
Presentation: 15 min

Identify the private costs , external costs and social costs from overfishing & smoking.

Identify the private benefits, external benefits and social benefits from education and health care.

ASSESSMENT (CRITERIA)

Табыс критерийлері:

	2 балл
Уақытты ұтымды пайдалануы (2 минут)	1 балл
Креативтілігі	2 балл

Unit: 11.4B-3

Government Intervention

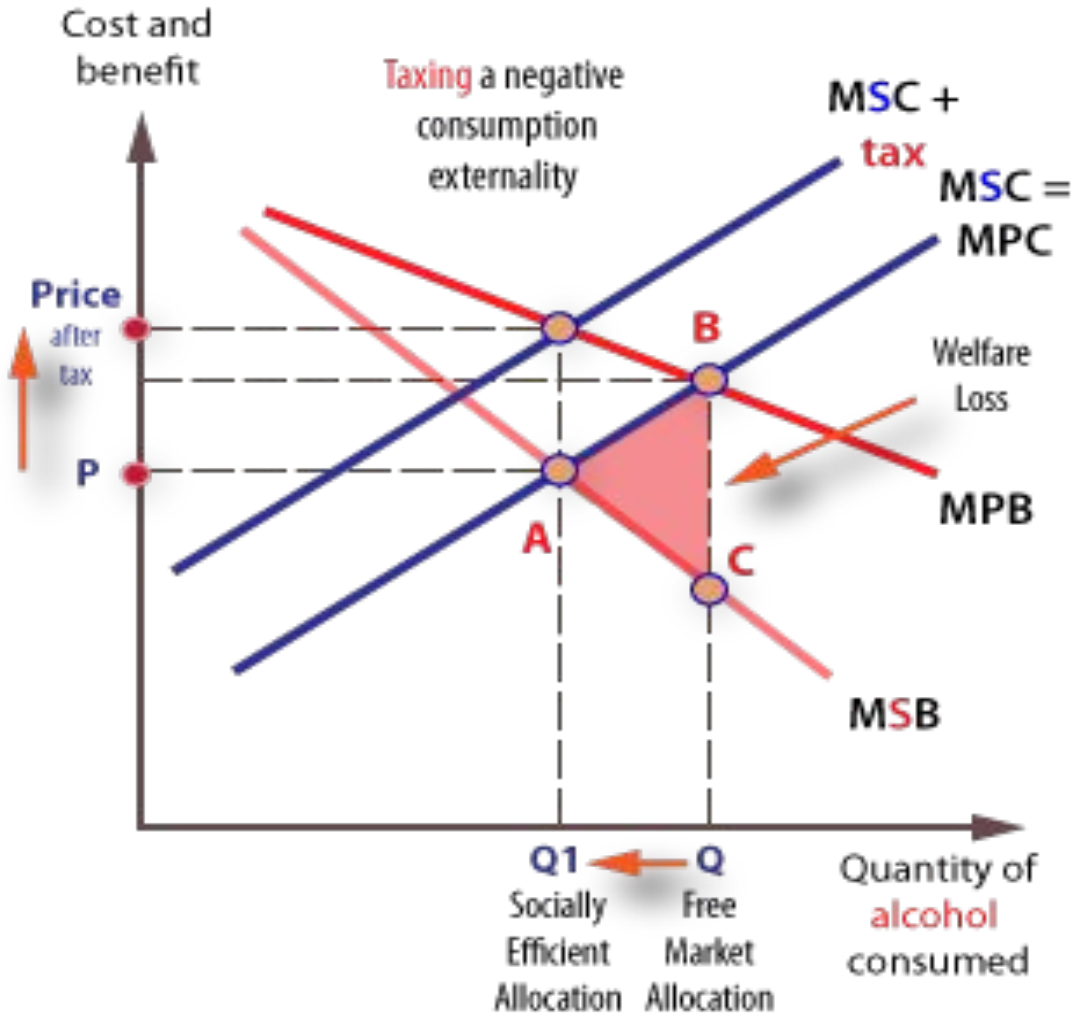
Previous Lesson Recap

(2 min)

The concepts/terms learnt:

- Negative externality
- Positive externality
- Taxes
- Subsidies

Pigovian tax
to correct Negative externalities



A tax shifts the marginal private cost curve up by the amount of the tax. If the tax is placed on the quantity of emissions from the factory, the producers have an incentive to reduce output to the socially optimum level. If the tax is placed on the percentage of emissions per unit of production, the factory has the incentive to change to cleaner processes or technology

Property Rights to correct Negative externalities

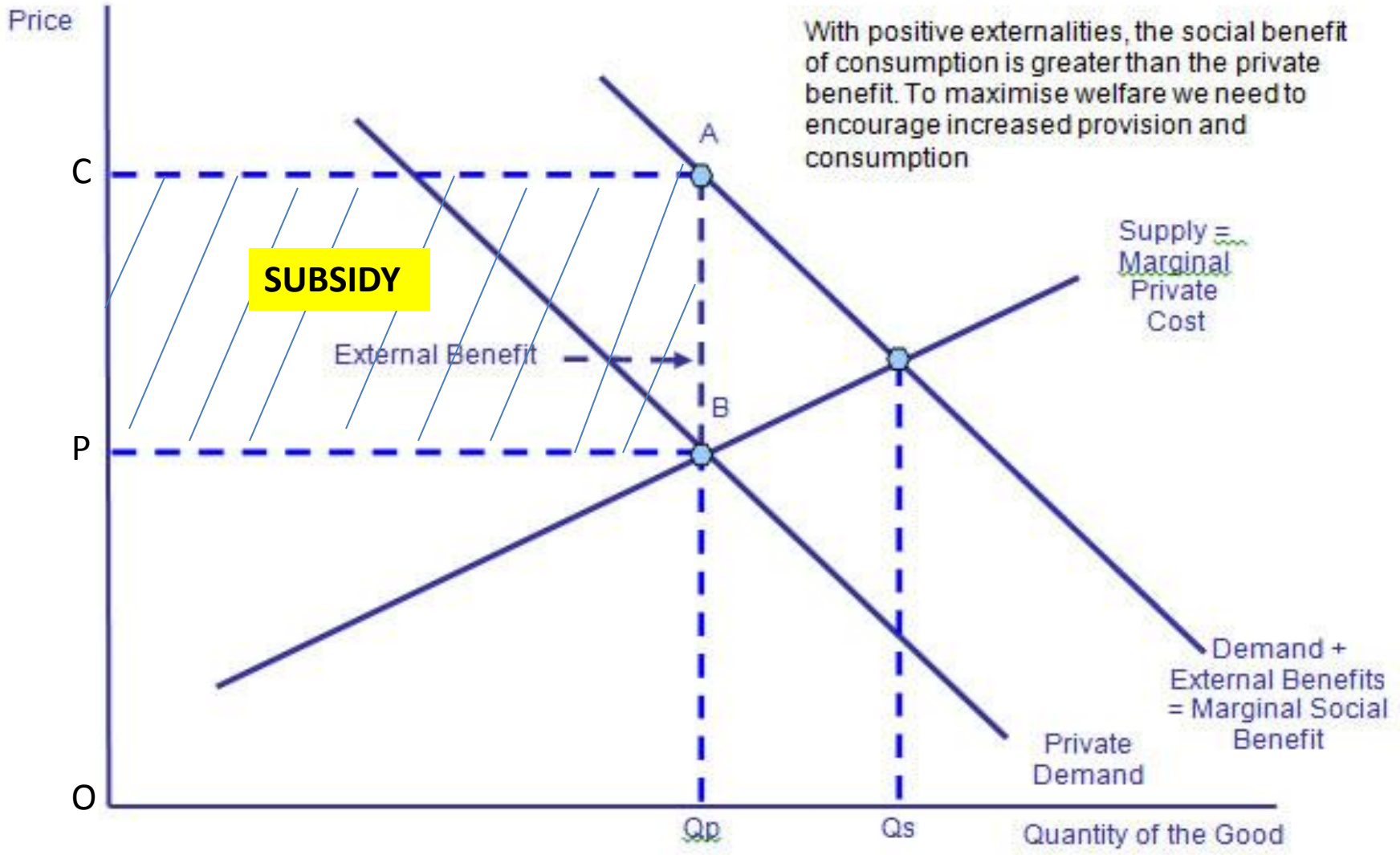
For some negative externalities, such as, pollution, if somebody had ownership rights to the air, sea etc., then they could take the polluters to court for compensation. The provision of property rights would give individuals ownership rights on the sea, air etc.,

Extend property rights so that third parties can negotiate with those individuals or organisations that cause the externality.

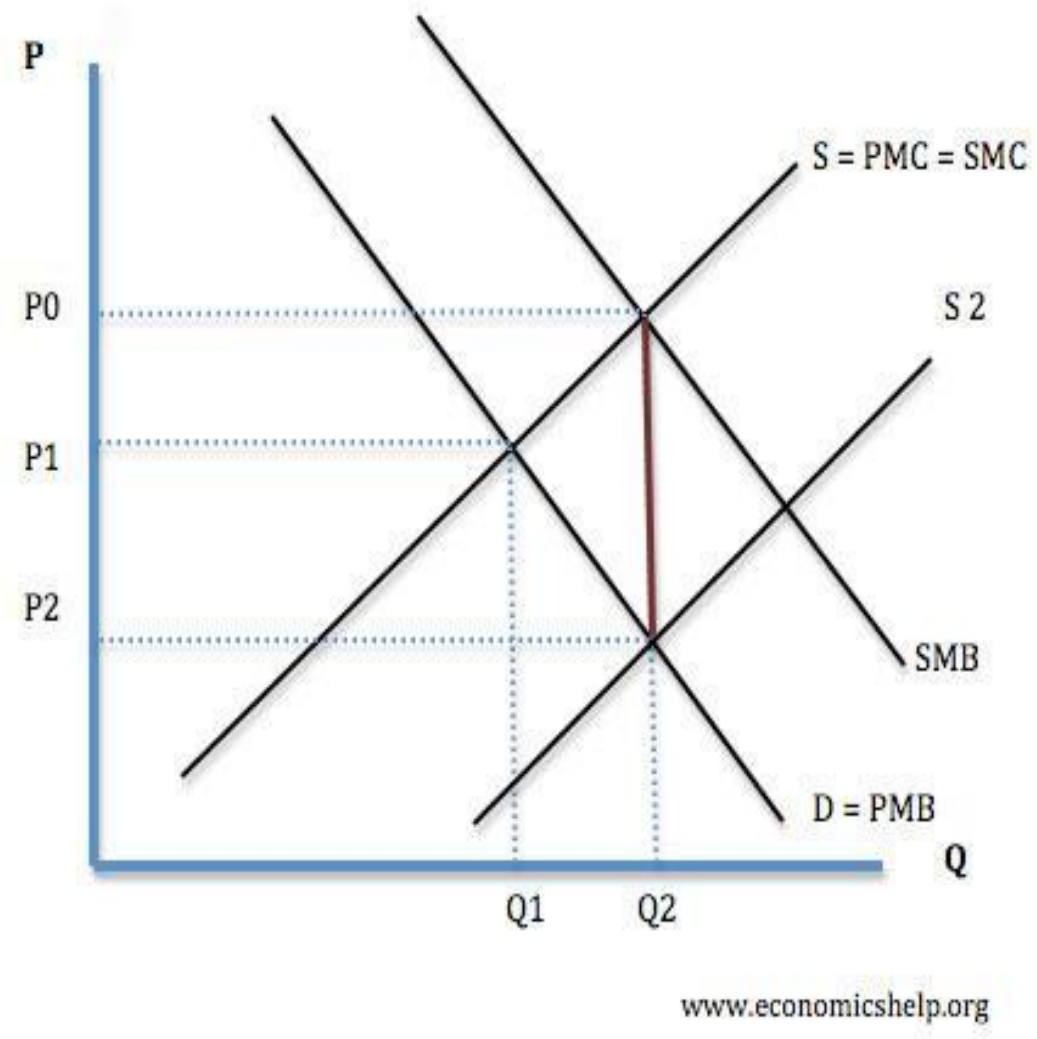
British economist and Nobel Prize winner, Ronald Coase argued that the establishment of property rights would provide an efficient solution to the problem of externalities.

As long as one party can establish a property right, there will be a bargaining process leading to an agreement in which externalities are taken into account.

Subsidies to encourage Positive Externalities



Subsidies to encourage Positive Externalities



Subsidy per unit = P0 -P2
The supply curve shifts to S2 and price falls from P1 to P2.
People will now consume more, the quantity increases from Q1 to Q2.
Hence, the economy will shift from Q1: Market optimum quantity MPC = MPB to Q2 = Social Efficiency: because MSC = MSB

Practice- Real World Scenario

Explain the private costs/benefits , external costs/benefits and social costs/benefits of using Car.