

8 Correcting market failure – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	Write it 3 times (English)		
market failure	_____	_____	_____
indirect tax	_____	_____	_____
subsidy	_____	_____	_____
regulation	_____	_____	_____
progressive tax	_____	_____	_____
redistribution	_____	_____	_____

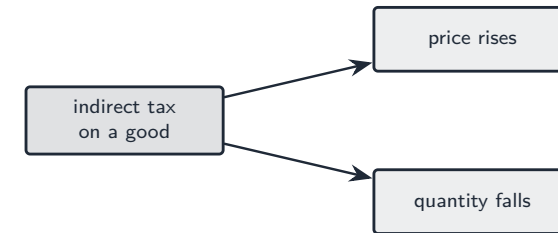
Recall

When a market gives a poor result – **market failure** – a government can step in to fix it.

New ideas

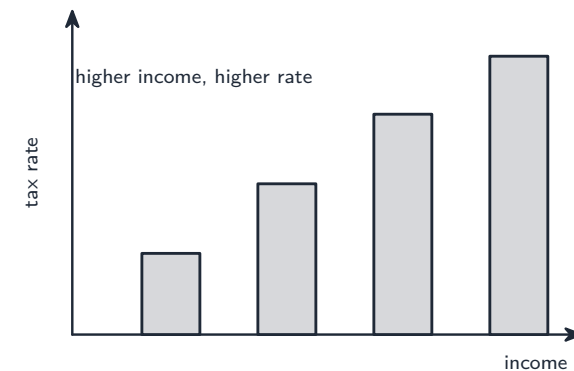
Read these first, then do the Practice.

■ 1 Tools to correct a market



- an **indirect tax** on a harmful good (like fuel) raises its price and cuts the quantity;
- a **subsidy** on a helpful good (like solar panels) lowers its price and raises the quantity;
- **regulation** uses rules and laws (bans, safety standards, pollution limits).

■ 2 Making incomes fairer



A **progressive tax** takes a larger share from higher incomes. With benefits and free services, this brings **redistribution** – moving income from richer to poorer.

Watch out: an indirect tax on a *harmful* good raises its price (cuts use); a subsidy on a *helpful* good lowers its price (raises use). A progressive tax takes a *larger share* from higher incomes, redistributing from rich to poor.

Practice

Try these in order.

8.6 What is *market failure*? [1]

8.7 What happens to the price of a good after an *indirect tax*? [1]

8.8 Would you put a *subsidy* on a harmful good or a helpful one? [1]

8.9 What is a *progressive tax*? [1]

8.10 What does *redistribution* move, and in which direction? [1]

8.11 Challenge. Explain how a progressive income tax, together with benefits for the poor, reduces inequality. [2]
