Market Failure and the Role of Government

AP Microeconomics · Vocabulary in context

Word	Example
allocation /ˌælə'keɪʃn/	An efficient **allocation** makes the amount where MSB equals MSC. MSB MSC
socially efficient /'səʊʃəli ɪ'fɪʃənt/	A **socially efficient** output counts all costs and benefits to society.
marginal social benefit /'mɑːdʒɪnl 'səʊʃl 'benɪfɪt/	The **marginal social benefit** is the total benefit to society from one more unit.
marginal social cost /'mɑːdʒɪnl 'səʊʃl kɒst/	The **marginal social cost** includes the harm to others from one more unit.
market failure /'mɑːkɪt 'feɪlɪə/	Pollution with no price is a **market failure**.
subsidy /'sʌbsɪdi/	A **subsidy** is money from the government that lowers a firm's costs.
externality /ekˈstɜːnælɪti/	Smoke affecting nearby households is a negative **externality**.
third party /θɜːd 'pɑːti/	A **third party** is someone outside the deal who is still affected by it.
transaction /træn'sækʃn/	Each **transaction** is a payment from one person to another.
negative externality /'negətɪv ekˈstɜːnælɪti/	Smoke from a factory is a **negative externality** for the people who live nearby.

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positive externality /ˈpɒzɪtɪv ekˈstɜːnælɪti/	A neighbour's beautiful garden is a **positive externality**: you enjoy it for free.
Pigovian tax /pɪˈgəʊvɪən tæks/	A **Pigovian tax** on pollution makes the polluter pay for the harm.
per-unit tax /pɜː ˈjuːnɪt tæks/	A **per-unit tax** of $1 is charged on every bottle sold.
deadweight loss /ˈdedweɪt lɒs/	A tariff causes a **deadweight loss** that nobody gains.
price ceiling /praɪs ˈsiːlɪŋ/	A **price ceiling** on rent stops landlords charging more than a set amount.
price floor /praɪs flɔː/	A minimum wage is a **price floor**.
tradable permit	A firm that cuts pollution cheaply can sell its **tradable permit**.
emissions /ɪˈmɪʃnz/	The law limits the factory's **emissions** of smoke.
abatement	Pollution **abatement** means cutting the amount of pollution.
Coase theorem /kəʊs ˈθɪərəm/	The **Coase theorem** says people can bargain to fix pollution if rights are clear.
property rights /ˈprɒpəti raɪts/	Clear **property rights** show who owns the land.
transaction costs	High **transaction costs** can stop many people from bargaining together.
rivalry /ˈraɪvəlri/	A sandwich shows **rivalry**: if I eat it, you cannot.

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excludability /eksˌkluːdəˈbɪlɪti/	A concert shows **excludability**: people without tickets can be kept out.
private good /ˈpraɪvət gʊd/	A sandwich is a **private good**: if you eat it, no one else can.
public good /ˈpʌblɪk gʊd/	A flood wall is a **public good**: it protects everyone.
free-ride /friː raɪd/	People who **free-ride** enjoy street lights without paying for them.
Common resources /ˈkɒmən rɪˈzɔːsɪz/	Fish in the sea are **common resources**: anyone can catch them, so they run out.
tragedy of the commons /ˈtrædʒədi ɒvðə ˈkɒmənz/	Overfishing is an example of the **tragedy of the commons**.
quota /ˈkwəʊtə/	An import **quota** limits how many cars can come in.
lump-sum tax /lʌmp sʌm tæks/	A **lump-sum tax** is the same amount for everyone.
lump-sum subsidy /lʌmp sʌm ˈsʌbsɪdi/	A **lump-sum subsidy** pays the firm a fixed amount, however much it makes.
natural monopoly /ˈnætʃərəl məˈnɒpəli/	Water supply is a **natural monopoly**: one firm can do it most cheaply.
Antitrust laws /ˌæntɪˈtrʌst lɔːz/	**Antitrust laws** stop big firms from joining to kill competition.
income distribution /ˈɪŋkʌm ˌdɪstrɪˈbjuːʃn/	The **income distribution** shows how income is shared between rich and poor.
Lorenz curve /ˈlɒrənts kɜːv/	A **Lorenz curve** shows how equally income is shared.

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Word	Example
Gini coefficient /ˈdʒiːni ˌkəʊɪˈfɪʃənt/	A higher **Gini coefficient** means more inequality.
human capital /ˈhjuːmən ˈkæpɪtl/	Training builds workers' **human capital**.
progressive taxes /prəˈgresɪv ˈtæksɪz/	**Progressive taxes** take a higher income share as income rises.
transfer payments /ˈtrænsfɜː ˈpeɪmənts/	Pensions are **transfer payments**.
efficiency–equity trade-off /ɪˈfɪʃənsi ˈekwɪti treɪd ɒf/	The **efficiency–equity trade-off** means a fairer share can make the total smaller.

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