

6. Market Failure and the Role of Government

Starter Quiz ·

AP Microeconomics

Name: _____ Score: _____

1. A market is socially efficient at the quantity where:
 - ☐ price is highest
 - ☐ marginal cost is zero
 - ☐ marginal social benefit equals marginal social cost
 - ☐ total revenue is highest
2. An externality is a cost or benefit that falls on:
 - ☐ the government only
 - ☐ only the buyer
 - ☐ a third party outside the transaction
 - ☐ only the seller
3. A good is "rival" when:
 - ☐ non-payers can be excluded
 - ☐ the government provides it
 - ☐ it is free to make
 - ☐ one person's use uses it up for others
4. Marginal-cost pricing ($P = MC$) of a natural monopoly gives the efficient quantity but often:
 - ☐ causes a shortage
 - ☐ forces the firm to make a loss
 - ☐ gives the firm a huge profit
 - ☐ raises the price above demand
5. Which is usually more unequal?
 - ☐ they are always equal
 - ☐ income (yearly earnings)
 - ☐ neither shows inequality
 - ☐ wealth (total assets owned)
6. At the socially efficient quantity, total surplus is as large as possible.
 - ☐ True ☐ False

7. A good with a positive externality (like vaccination) is underproduced by the market.

☐ True ☐ False

8. When everyone waits for someone else to pay for a public good, it is the _____-rider problem.

9. Policy that blocks mergers to keep markets competitive is called _____ policy.

10. The poorest 50% of people earn 20% of all income. As a decimal, what is the income share (y-value) at population share 0.5?

AP Microeconomics

1. **marginal social benefit equals marginal social cost**

At $MSB = MSC$ total surplus is maximised – the efficient quantity.

2. **a third party outside the transaction**

The spillover lands on someone outside the buyer-seller deal.

3. **one person's use uses it up for others**

Rivalry is about using it up; excludability is about keeping non-payers out.

4. **forces the firm to make a loss**

A natural monopoly's average cost sits above marginal cost, so $P = MC$ is below ATC – a loss.

5. **wealth (total assets owned)**

Wealth (accumulated assets) is typically distributed far more unequally than yearly income.

6. **True**

Making more or less than $MSB = MSC$ would shrink total surplus.

7. **True**

Buyers ignore the benefit to others, so the market makes too little.

8. **free**

The free-rider problem leaves public goods underprovided, so the government steps in.

9. **antitrust**

Antitrust policy limits the build-up of market power.

10. **0.2**

The Lorenz curve passes through $(0.5, 0.2)$ – well below the equal-share point $(0.5, 0.5)$.