

6.1 Socially Efficient and Inefficient Market Outcomes

Name: _____ Class: _____ Date: _____ **Total: 9 marks****KEY WORDS** market failure 市场失灵 • socially efficient 社会效率 • public good 公共物品

Objective

Build the skills to answer exam questions on **socially efficient and inefficient market outcomes**.

You must be able to:

- explain that a market is **socially efficient** 社会效率 when **marginal social benefit** equals **marginal social cost**
- relate the efficient outcome to the maximization of **total surplus**
- explain how **market power** leads to underproduction and a **deadweight loss**
- define **market failure** 市场失灵

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Social efficiency

A market is socially efficient where **marginal social benefit (MSB) = marginal social cost (MSC)** — this maximizes **total surplus**.

■ Market power

A firm with market power **underproduces** (produces where $P > MC$), so some mutually beneficial units are lost — a **deadweight loss**.

■ Market failure

Any outcome in which a market **fails to allocate resources efficiently** (from market power, externalities, public goods, and so on).

2 Practice

2.1 State the condition for a socially efficient market outcome. [1]

2.2 Define market failure. [1]

2.3 Explain how market power leads to a deadweight loss. [2]

3 Exam-style questions

3.1 A market is socially efficient where [1]

- | | |
|---|---|
| A | B |
| C | D |
- A** $MSB > MSC$
B $MSB = MSC$
C $MSB < MSC$
D the price is zero

3.2 Market failure is when a market [1]

- | | |
|---|---|
| A | B |
| C | D |
- A** maximizes total surplus
B fails to allocate resources efficiently
C is perfectly competitive
D has no firms

3.3 A monopoly restricts output below the efficient level.

(a) State the effect on total surplus. [1]

(b) Name the loss this creates. [1]

(c) State whether this is a market failure. [1]