Market failure and government intervention

Pearson Edexcel · International A-Level · Economics · Vocabulary in context

Word	Example
market failure /ˈmɑːkɪt ˈfeɪlɪə/	Pollution with no price is a **market failure**.
socially optimal	The **socially optimal** output is where the benefit to society equals the cost to society.
externalities /ekˈstɜːnælɪtiz/	Pollution from a factory is one of the **externalities** that harm people nearby.
public goods /ˈpʌblɪk gʊdz/	Street lights are **public goods**: everyone can use them, and one user does not stop another.
free-rider problem /friː ˈraɪdə ˈprɒbləm/	People who use the street lights without paying cause the **free-rider problem**.
moral hazard /ˈmɒrəl ˈhæzəd/	**Moral hazard** happens when insured people take more risks.
bubbles	House price **bubbles** grow fast and then burst.
external cost /ekˈstɜːnl kɒst/	Noise from a factory is an **external cost** to its neighbours.
external benefit /ekˈstɜːnl ˈbenɪfɪt/	A neighbour's pretty garden gives you an **external benefit**.
marginal /ˈmɑːdʒɪnl/	The **marginal** cost is the extra cost of making one more unit.

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welfare loss /ˈwelfeə lɒs/	A **welfare loss** happens when the market makes too much or too little.
private good /ˈpraɪvət gʊd/	A sandwich is a **private good**: if you eat it, no one else can.
rival /ˈraɪvl/	A sandwich is **rival**: if I eat it, you cannot.
excludable /eksˈkluːdəbl/	A concert is **excludable**: people without tickets can be kept out.
asymmetric information /ˌeɪsɪˈmetrɪk ˌɪnfəˈmeɪʃn/	There is **asymmetric information** when the seller knows more than the buyer.
negative equity	People have **negative equity** when their house is worth less than their loan.
Pigouvian tax /pɪˈguːvɪən tæks/	A **Pigouvian tax** on pollution makes firms pay for the harm they cause.
maximum prices	**Maximum prices** keep rents low, but can cause shortages.
minimum prices	**Minimum prices** on alcohol aim to stop people drinking too much.
tradeable pollution permits	Firms can sell **tradeable pollution permits** they do not need.
property rights /ˈprɒpəti raɪts/	Clear **property rights** show who owns the land.
regulation /ˌregjʊˈleɪʃn/	**Regulation** sets rules that firms must follow.
government failure /ˈgʌvənmənt ˈfeɪlɪə/	**Government failure** happens when a policy makes things worse.

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