

3.1 The mixed economy and externalities

Name: _____ Class: _____ Date: _____

Total: 22 marks

KEY WORDS public good • external cost

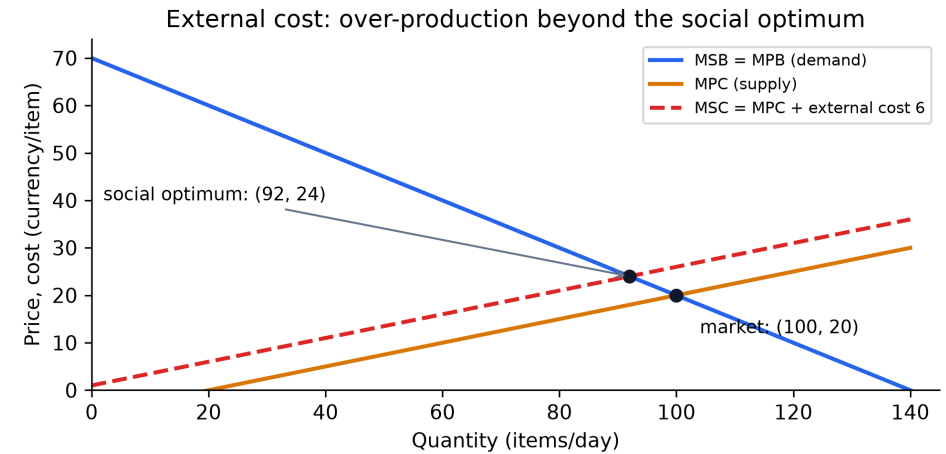
The mixed economy and externalities

Objective

Distinguish the sectors, apply the three questions, define public goods and the free-rider problem, evaluate privatisation, and use the social cost and benefit formulae (spec 1.1.5–1.1.6).

1 Key knowledge and worked examples

Sectors and externalities. Private sector: owned by individuals and firms for profit; public sector: state-owned for welfare – ownership, control and aims differ. Public goods are non-excludable and non-rival, so free-riders make private provision impossible. Social cost = private cost + external cost; social benefit = private benefit + external benefit. On the shared model with external cost 6, the market (100, 20) over-produces against the social optimum (92, 24).



Original model; both equilibria are computed in the solutions.

2 Practice

2.1 Define the mixed economy and name its two sectors. [2]

2.2 State the three questions every economy must answer. [2]

2.3 State the two properties of a public good and the problem they create. [2]

2.4 Define privatisation. [1]

2.5 Give one example of an external cost and one of an external benefit. [2]

2.6 Write the two social formulae. [2]

3 Exam-style questions

3.1 (*Original.*) Explain why street lighting must be provided by the public sector, using the terms non-excludable and free-rider. [3]

3.2 (*Original.*) A market trades at $(100, 20)$ on the demand curve $Q_d = 140 - 2P$ and supply $Q_s = 20 + 4P$. Production carries an external cost of 6 per unit. Find the social optimum and state the size and direction of the market failure. [4]

3.3 (*Original.*) Evaluate the effects of privatising the state water company on consumers and the government. [4]
