

The mixed economy and externalities

Edexcel IGCSE Economics 4EC1 sections 1.1.5-1.1.6 full package

1. Topic 3 at a glance

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4EC1 topic 3: spec sections 1.1.5 and 1.1.6 - the mixed economy (eleven rows) and externalities (five rows).

Must-know: private and public sectors differ in ownership, control and aims; the three questions answered by both mechanisms; public goods are non-excludable and non-rival, so free-riders kill private provision; social cost = private + external; the shared model with external cost 6 over-produces at (100, 20) against the social optimum (92, 24).

2. The mixed economy

The mixed economy

A mixed economy holds a private sector (owned by individuals and firms, aiming at profit) and a public sector (state-owned, aiming at welfare). The three questions - what, how, for whom - are answered by price signals AND state direction together.

Market failure is the inefficient allocation of resources; it justifies intervention. Public goods - non-excludable, non-rival - cannot be sold, so the state provides them.

Privatisation reverses ownership: consumers gain if efficiency and competition pass through, lose if a monopoly results; government banks a one-off receipt but gives up dividends and control.

3. Externalities

Externalities

External costs of production fall on third parties: pollution, congestion, environmental damage. External benefits of consumption spill to others: education, healthcare, vaccinations.

Social cost = private cost + external cost; social benefit = private benefit + external benefit. With external cost 6, the social supply crosses demand at (92, 24) while the market trades (100, 20): 8 units of over-production, because the externality is invisible to the market.

Check yourself

Check yourself

Sector definitions and differences; the three questions; relative importance across economies.

Market failure; public goods and the free-rider; privatisation effects on four groups.

The two formulae; the worked externality model; the examples list for both directions.