Market failure and equity (2.8-2.9, 2.12)

International Baccalaureate · IB Diploma · Economics · HL · Vocabulary in context

Word	Example
marginal private benefit /ˈmɑːdʒɪnl ˈpraɪvət ˈbenɪfɪt/	**Marginal private benefit** is the extra benefit to the buyer of one more unit.
marginal private cost /ˈmɑːdʒɪnl ˈpraɪvət kɒst/	**Marginal private cost** is what one more unit costs the firm itself.
market failure /ˈmɑːkɪt ˈfeɪlɪə/	Pollution with no price is a **market failure**.
externality /ekˈstɜːnælɪti/	Smoke affecting nearby households is a negative **externality**.
marginal social cost /ˈmɑːdʒɪnl ˈsəʊʃl kɒst/	The **marginal social cost** includes the harm to others from one more unit.
marginal social benefit /ˈmɑːdʒɪnl ˈsəʊʃl ˈbenɪfɪt/	The **marginal social benefit** is the total benefit to society from one more unit.
social optimum /ˈsəʊʃl ˈɒptɪməm/	At the **social optimum**, the benefit to society equals the cost to society.
welfare loss /ˈwelfeə lɒs/	A **welfare loss** happens when the market makes too much or too little.
Pigouvian tax /pɪˈguːvɪən tæks/	A **Pigouvian tax** on pollution makes firms pay for the harm they cause.
tradable permit	A firm can sell a **tradable permit** if it pollutes less than allowed.

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Word	Example
tragedy of the commons /ˈtrædʒədi ɒvðə ˈkɒmənz/	Overfishing is an example of the **tragedy of the commons**.
public good /ˈpʌblɪk gʊd/	A flood wall is a **public good**: it protects everyone.
non-rival /nɒn ˈraɪvl/	A radio signal is **non-rival**: one person listening does not stop others.
non-excludable /nɒn eksˈkluːdəbl/	Street lights are **non-excludable**: no one can be stopped from using them.
free-rider problem /friː ˈraɪdə ˈprɒbləm/	People who use the street lights without paying cause the **free-rider problem**.
equity /ˈekwɪti/	Who pays the new tax is a question of **equity**.
equality /iːˈkwɒlɪti/	**Equality** means everyone has the same income or the same chances.
Lorenz curve /ˈlɒrənts kɜːv/	A **Lorenz curve** shows how equally income is shared.
Gini coefficient /ˈdʒiːni ˌkəʊɪˈfɪʃənt/	A higher **Gini coefficient** means more inequality.
poverty /ˈpɒvəti/	To measure **poverty**, look at food, housing and schooling.
cap and trade	**Cap and trade** limits total pollution and lets firms buy and sell permits.
carbon tax	A **carbon tax** charges for carbon emissions.
carbon leakage	**Carbon leakage** happens when polluting factories move to countries with weaker rules.

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Word	Example
common pool resource	A fishing area is a **common pool resource**: anyone can use it, and it can run out.

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