# Market failure and equity (2.8-2.9, 2.12)

International Baccalaureate · IB Diploma · Economics · SL · 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 |
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| **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 |
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| **common pool resource** | A fishing area is a **common pool resource**: anyone can use it, and it can run out. |



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