IGCSE ECONOMICS • EXERCISE SHEET

2.9 Market failure

Name: ____________ Class: ________ Date: __________ **Total: 17 marks**

KEY WORDS external cost 外部成本 • external benefit 外部效益 • private benefit 私人效益 • private cost 私人成本 • public goods 公共物品

Objective

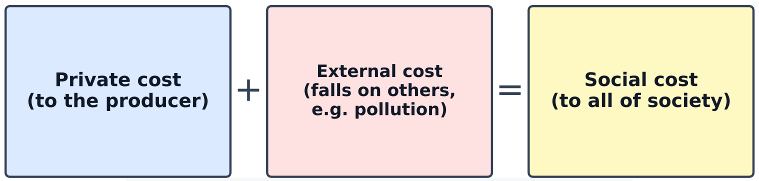
Build the skills to answer exam questions on **market failure** 市场失灵 — **external costs and benefits** 外部成本与外部效益, **merit, demerit and public goods** 有益、有害、公共物品, and the **abuse of monopoly power** 垄断势力的滥用.

You must be able to:

- define private, external and social costs and benefits
- distinguish merit, demerit and public goods
- analyse the causes of market failure

1 Worked examples

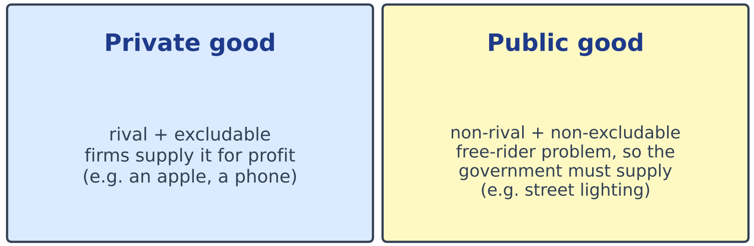
Why markets fail



MSC = MPC + external cost (negative production externality)

Firms ignore external costs, so the market over-produces

- **Private cost** 私人成本: to the person acting. **External cost** 外部成本: paid by others (pollution). **Social cost** 社会成本 = private + external.
- **Merit goods** 有益物品 (education): under-produced. **Demerit goods** 有害物品 (cigarettes): over-produced. **Public goods** 公共物品 (street lights): the market makes none.
- **Monopoly** 垄断: one firm → high prices, poor quality.



Exam: public goods fail the free-rider test — non-rival and non-excludable → government supply

Public goods are a clear market failure — non-excludable, so no firm can charge for them

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define the term *external cost.* [2]

2.2 State the difference between a *merit* and a *demerit* good. [2]

2.3 Define the term *public good.* [2]

3 Exam-style questions

3.1 A factory that pollutes a river is an example of: [1]

A an external benefit
B an external cost
C a public good
D a merit good

3.2 Explain why a free market produces too much of a demerit good. [4]

3.3 Analyse why public goods are not provided by a free market. [6]