

Subject	Year	Term
Economics (micro)	Year 12 and Year 13	Y12 Spring 1 Y12 Spring 2 Y13 Spring 1
Topic		
4.1.8 The market mechanism, market failure and government intervention in markets		
Content (Intent)		
<p><b>Prior Learning</b></p> <ul style="list-style-type: none"> <li>• Section 4.1.1, 4.1.3</li> <li>• The following topics are particularly helpful: How markets function</li> </ul>		
<p><b>This section of the syllabus is split into 10 topics (4.1.8.1 to 4.1.8.10)</b></p>		
<p><b><u>Part 1 - Topics completed in Y12 Spring term 1</u></b></p>		
<p><b>4.1.8.1. How markets and prices allocate resources</b></p>		
<ul style="list-style-type: none"> <li>• The rationing, incentive and signalling functions of prices in allocating resources and coordinating the decisions of buyers and sellers in a market economy.</li> <li>• The advantages and disadvantages of the price mechanism and of extending its use into new areas of activity. Students should understand how economic incentives influence what, how and for whom goods and services are produced.</li> </ul>		
<p><b>4.1.8.2. The meaning of market failure</b></p>		
<ul style="list-style-type: none"> <li>• Market failure occurs whenever a market leads to a misallocation of resources.</li> <li>• The difference between complete market failure (resulting in a missing market) and partial market failure (where a market exists but contributes to resource misallocation).</li> <li>• How public goods, positive and negative externalities, merit and demerit goods, monopoly and other market imperfections, and inequalities in the distribution of income and wealth can lead to market failure.</li> </ul>		
<p><b>4.1.8.3. Public goods, private goods and quasi-public goods</b></p>		
<ul style="list-style-type: none"> <li>• Pure public goods are non-rival and non-excludable and recognition of the significance of these characteristics.</li> <li>• The difference between a public good and a private good.</li> <li>• Circumstances when a public good may take on some of the characteristics of a private good and become a quasi-public good.</li> <li>• The significance of technological change, eg television broadcasting is now excludable.</li> <li>• The free-rider problem.</li> <li>• The tragedy of the commons.</li> </ul>		
<p><b>4.1.8.4. Positive and negative externalities in consumption and production</b></p>		
<ul style="list-style-type: none"> <li>• Externalities exist when there is a divergence between private and social costs and benefits.</li> <li>• Why negative externalities are likely to result in over-production and that positive externalities are likely to result in underproduction.</li> <li>• Why the absence of property rights leads to externalities in both production and consumption and hence market failure.</li> </ul>		
<p><b>4.1.8.5. Merit and demerit goods</b></p>		
<ul style="list-style-type: none"> <li>• The classification of merit and demerit goods depends upon a value judgement.</li> <li>• Such products may be subject to positive and negative externalities in consumption.</li> <li>• How under-provision of merit goods and over-provision of demerit goods may also result from imperfect information.</li> </ul>		

## **Part 2 - Topics completed in Y12 Spring term 2**

### **4.1.8.9. Government intervention in markets**

- The existence of market failure, in its various forms, provides an argument for government intervention in markets.
- Governments influence the allocation of resources in a variety of ways, including through public expenditure, taxation and regulation.
- Governments have a range of objectives and these affect how they intervene in a mixed economy to influence the allocation of resources.
- The use of indirect taxation, subsidies, price controls, state provision and regulation, the extension of property rights and pollution permits to correct market failure.

### **4.1.8.10. Government failure**

- Government failure occurs when government intervention in the economy leads to a misallocation of resources.
- Inadequate information, conflicting objectives and administrative costs are possible sources of government failure.
- Governments may create, rather than remove, market distortions.
- Government intervention can lead to unintended consequences.

## **Part 3 - Topics completed in Y13 Spring term 1**

### **4.1.8.6. Market imperfections**

- Why imperfect and asymmetric information can lead to market failure.
- Why the existence of monopoly and monopoly power can lead to market failure.
- Why the immobility of factors of production can lead to market failure.

### **4.1.8.7. Competition policy**

- The general principles of UK competition policy and some awareness of EU competition policy.
- The costs and benefits of such policies.

### **4.1.8.8. Public ownership, privatisation, regulation and deregulation of markets**

- The arguments for and against the public ownership of firms and industries.
- The arguments for and against the privatisation of state-owned enterprises.
- The arguments for and against the regulation of markets.
- The arguments for and against the deregulation of markets.
- The problem of regulatory capture.

### **Future Learning:**

This section provides the foundation for justifying (or not) government intervention in markets. Policies are explored that link to future sections - such as market structures, labour markets, distribution of income and wealth. The concept of government failure is relevant to all future sections – every section from now on involves evaluating state intervention.

#### **How will knowledge and skills be taught? (Implementation)**

- This topic will involve, but not be limited to:
- Teacher led lesson content
  - Independent learning tasks
  - Group discussion/debates and questioning
  - Using economic terminology
  - Reference to economic examples throughout

#### **How will your understanding be assessed & recorded (Impact)**

- Past Paper responses and essays. Marked and feedback given.
- Verbal responses. Individual and class feedback given.

#### **How can parents help at home?**

- Discussing ideas and content at home & linking it to real world situations that they are aware of.
- Watch the news and/or read a good quality newspaper
- Watch any topical films or documentaries that link to economics e.g. Panorama, dispatches etc.
- Support us with our department's high expectations of spelling, grammar, punctuation, and minimum standards.

## Helpful further reading/discussion

### Reading

- Economics A level textbooks
- Tutor 2u website and YouTube channel
- [www.econplusdal.com](http://www.econplusdal.com)
- <https://www.tutor2u.net>
- BBC website for current economics articles
- Exam board subject website
- <https://www.aqa.org.uk/subjects/economics/as-and-a-level/economics-7135-7136>
- CIA website for international economic data
- <https://www.cia.gov/the-world-factbook/>

### Vocabulary Key Words

- Rationing function
- Incentive function
- Signalling function
- Coordinating decisions
- The price mechanism
- Market failure
- Misallocation of resources
- Complete market failure
- Missing market
- Partial market failure
- Public good
- Private good
- No-rival
- Non-excludable
- Quasi-public good
- Externality
- Positive externality
- Negative externality
- Divergence
- Private costs/benefits
- External costs/benefits
- Social costs/benefits
- Merit good
- Demerit goods
- Market imperfection
- The free-rider problem
- The tragedy of the commons
- Over-production
- Underproduction
- The absence of property rights
- Asymmetric information
- Monopoly
- Monopoly power
- Immobility of factors of production
- Competition policy
- Public ownership
- Nationalisation
- Private ownership
- Privatisation
- Regulation/deregulation
- Regulatory capture
- Government intervention
- Public expenditure
- Direct taxation
- Indirect taxation
- Subsidies
- Price controls
- State provision
- The extension of property rights
- Pollution permits
- Government failure
- Conflicting objectives
- Administrative costs
- Market distortions
- Unintended consequences

### Careers Links

A level economics develops skills and knowledge that help in a wide range of careers. An understanding of how changes in economic variables impacts the economic environment that firms operate in is useful for careers in a wide range of industries. Data handling and interpretation skills, along with the ability to construct alternative arguments to a problem before drawing conclusions are valued in many careers.