**RWS#7: Market Failure #2 –**

**Consumption Externalities (Merit and Demerit Goods)**

**Due for Monday 9th March 2020**

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| **GENERAL INSTRUCTIONS:**  Please complete a revision worksheet summarizing the work from the last two weeks. The work should be taking you **2.25 to 3 hours** to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).  Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!  You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there maybe a few extras I want you to read.  This revision worksheet should be taking you 2.25 hours minimum…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next hour reading any extra information or clarifying concepts if you do not understand them. Then use the final 45 minutes to edit the work, make it look pretty and print it off.  REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGE  ALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK |
| **SOURCES**  **Compulsory**   * Course Textbook (access through library website or link from previous email) – pp 108-114 (read these pages – it is vital that you do so) * Class and PREP homework notes (in your bag!) * **VIDEO LINK 1:** [**https://www.youtube.com/watch?v=aj6FTueEICY**](https://www.youtube.com/watch?v=aj6FTueEICY) **(Negative Externalities in Consumption) – 14 minutes** * **VIDEO LINK 2:** [**https://www.youtube.com/watch?v=lb1fnodI3YU**](https://www.youtube.com/watch?v=lb1fnodI3YU) **(Positive Externalities in Consumption) – 12 minutes**   **EXTENSION (IF YOU HAVE TIME, TRY TO READ OR WATCH THESE)**  Economics Help Website  Tutor2U Website  **ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** [**ods@godalming.ac.uk**](mailto:ods@godalming.ac.uk) |

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| **SPECIFIC INSTRUCTIONS:**  **TITLE: RWS7 – Consumption Externalities (Merit and Demerit Goods)**  **Introduction to Marginal Analysis and Welfare Theory (1/4 a side of A4)**   1. Define Social, External and Private Costs and Benefits, using examples of fast food and healthcare 2. Why is the Marginal Social Cost upward sloping and why is the Marginal Social Benefit downward sloping? 3. On a diagram, the MSC and MSB curves meet at an equilibrium. Why is this point significant? What does it say about the allocation of resources in this market? Refer to the concept of ‘efficiency’. 4. Explain why economic agents are ‘rational’ and ‘selfish’ in marginal analysis and welfare theory (HINT: look at your PREP homework for help) 5. What are the problems with marginal analysis and welfare theory – think about criticisms to the theories….such as value etc.?   **Background to Obesity in the UK (1/4 a side of A4)**   1. Provide some statistics of the current obesity issue in the UK. 2. Why is Obesity seen to be a problem? (think diabetes, early death, less productive workforce etc.)   **Market Failure - Consumption Externalities (Merit and Demerit Goods): Why is the market failing? (1/2 a side of A4)**   1. Define merit and demerit goods providing at least two examples of each in the context of contributions to ‘Obesity’ 2. DEMERIT GOOD: Show on an ‘externality’ diagram, why in the market for foods with high sugar, consumption is considered to be a market failure (assuming no Government Intervention at this time). Remember to refer to your diagram in your explanation. How is the market allocatively inefficient? 3. MERIT GOOD: Show on an ‘externality’ diagram why healthcare consumption is considered to be a market failure (assuming no Government Intervention at this time). Remember to refer to your diagram in your explanation. How is the market allocatively inefficient?   **Market Success – Consumption Externalities (Merit and Demerit Goods): Why is the market NOT failing and why might it be working? (1/4 side of A4)**   1. Talk about how markets might solve the obesity issue by other markets springing up (e.g. Weight Watchers!) 2. Also talk about how it is hard to place monetary values on every cost and benefit. Perhaps we are making value judgements of people and judging how other people should live their lives?   **Government Intervention and Failure to correct this Market Failure (3/4 side of A4)**  Complete this table using your notes from the PREP work and in class debates:   |  |  |  |  | | --- | --- | --- | --- | |  | **Advantages**  (Government Intervention Success – explaining why or how this could work) | **Disadvantages** (Government Failure – remember the categories of ‘political conflict’, unintended effects and administrative costs | **Brief Conclusion** | | **PRICE MECHANISM ALTERATIONS:** Government imposing a Sugar Tax | Remember to draw a diagram showing the effect of a tax on the market for foods high in sugar |  |  | | **DIRECT CONTROLS:** Government Provision through the NHS | Remember to draw a diagram showing the effect of a subsidy on the market for healthcare |  |  | | **PERSUASION:** Government running an advertising campaign to educate consumers about healthy living and food. | Remember to draw a diagram showing the effect of a successful advertising campaign to consume more healthcare OR consumer less foods high in sugar |  |  | | **Overall Conclusion** (which is the best intervention and why?) |  | | | |