**Market Failure**

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

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| **GENERAL INSTRUCTIONS:**Please complete a revision worksheet summarizing the work Externalities. 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. 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 resources below |
| **SOURCES****Compulsory*** Course Textbook
* Econplusdal and Pajholden clips
* Economicshelp website
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| **SPECIFIC INSTRUCTIONS:****TITLE: 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

**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?

**Government Intervention and Failure to correct this Market Failure (3/4 side of A4)**

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|  | **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?) |  |

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