**Market Failure**

**Production Externalities**

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| **GENERAL INSTRUCTIONS:**  Please complete a revision worksheet summarizing the work on production 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 compulsory resources below  This revision worksheet should be taking you 2.25 hours minimum |
| **SOURCES**  **Compulsory**   * Course Textbook * Tutor2u resources * Pajholden and Econplusdal clips * Economicshelp website |

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| **SPECIFIC INSTRUCTIONS:**  **TITLE: Production Externalities**  **Background to Environmental Issues Globally and in the UK (1/4 a side of A4)**   1. What does ‘climate change’ refer to? What is the debate over energy use? Quick introduction. 2. Define the concept of sustainability and explain what resource ‘degradation’ and ‘depletion’ refer to with examples 3. Provide some statistics to highlight the main problems of energy use and climate change 4. Relate the concept of ‘negative externalities’ to climate change to explain why it is a problem 5. What production of goods can create ‘positive externalities’ that combat climate change?   **Market Failure – Production Externalities: Why is the market failing? (1/2 a side of A4)**   1. Draw an externality diagram for negative externalities in production for the burning of fossil fuels. Identify the free market equilibrium, explain why there is a market failure and identify the MSC, MPC and MEC on your diagram at the free market quantity. 2. Explain your diagram – what is the problem with firms not fully taking the social cost of production into account? 3. Draw an externality diagram for positive externalities in production for the production of renewable energies (solar panels etc.). Identify the free market equilibrium, explain why there is a market failure and identify the MSC, MPC and MEC on your diagram at the free market quantity. 4. Explain your diagram – what is the problem with firms not fully taking into account the social cost of production into account?   **Market Success – Why might production externalities not be a problem? (1/4 side of A4)**   1. Talk about how markets might solve the climate change issue by other markets springing up (e.g. the move over to renewable energies?) 2. Also talk about how it is hard to place monetary values on every cost and benefit? Does this place the market failure theory in doubt?   **Government Intervention and Failure to correct this Market Failure (1 side of A4)**  Complete this table:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | **BRIEF HISTORY** | **Advantages**  (Government Intervention Success) | **Disadvantages** (Government Failure) | **Brief Conclusion** | | **PRICE MECHANISM ALTERATIONS:** The Climate Levy and Carbon Tax in the UK |  | Remember to draw a diagram showing the effect of a tax levied on the most polluting firms |  |  | | **PRICE MECHANISM ALTERATIONS:** UK Government providing subsidies to the UK |  | Remember to draw a diagram showing the effect of a subsidy to those firms that are providing renewable energy |  |  | | **DIRECT CONTROLS:** Regulation through international co-operation |  | Remember to draw a diagram showing the effect of regulation in combatting a negative externality in production (the diagram will be the same for both interventions – hint: think MPC?) |  |  | | **DIRECT CONTOLS:** Regulation through tradable permits |  |  |  | | **Overall Conclusion** (which is the best intervention and why?) |  | | | | |