***IB Economics Year 1 Unit 5* Market Failure**

The government’s role in addressing market failures in terms of externalities, pollution control and protecting public space.

# Economic Terminology

Economic Goals for a society

Market failure

Positive externalities

Merit goods

Negative externalities

Non-merit goods (demerit goods)

External economies/external diseconomies

External costs/benefits

Third party costs/benefits

Internalizing external costs

Pollution regulation controls

Eco-tax

Tradable permits

Cap and trade programs

Marginal Private Benefits

Marginal Social Benefits

Marginal Private Costs

Marginal Social Costs

Allocative efficiency

Collective goods (public goods)

Rivalry-- Shared consumption

Excludability-- non-exclusion

Free riders

Common access resources

Lack of Pricing Mechanism

Sustainability

Sustainable Development

“the problem of the commons”

Property rights

**Objectives:**

1. Use graphs to show how positive externalities result in an under-provision of a good and how negative externalities result in an over-provision.
2. Distinguish between externalities of consumption and externalities of production.
3. Evaluate the government market based responses and direct controls used to stop externalities and give real life examples.
4. Analyze and use diagrams to explain how firms are forced to internalize their external costs.
5. Describe the kinds of goods and services that are collective goods and explain why the government provides them.
6. Evaluate possible government responses to threats to sustainability and abuse of common access resources
7. Explain the necessity of international cooperation to protect global common access resources.
8. Examine how Sustainable Development policies include breaking negative links and creating positive links between the economy and the environment.

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| Block B Due Thursday, Jan17  Blocks E/G Sunday Jan 20 | HW 5.1 Negative Externalities - Read textbook p.101-112 and answer HW questions p. 108 #1a and b, 5  p. 112 #5 all |
| Block B Due Wednesday, 1/23  Blocks E/G Thursday Jan 24 | HW 5.2 Positive Externalities - Read textbook p.113-118 and answer HW questions  p. 115 #1a and b  p. 119 #2 and 3 |
| Block B Due Monday Jan 27  Blocks E/G Tuesday Jan 28 | HW 5.3 Common Access Resources and Sustainability Read textbook p.121-130 and answer HW questions  p. 123 #2a and 5 a and b |
| Block B In class Monday Jan 27  Blocks E/G In class Tuesday Jan28 | Read and answer questions p. 130 Real World Focus (bottom of the page) #1,2 and 3 |
| Block B In class Wednesday, January 30  Blocks E/G In class Thursday Jan 31 | Article analysis with your group – article and assignment on Moodle |
| Block B Due Sunday Feb 3  Blocks E/G Due Monday Feb 4 | HW 5.4 Public Goods Read textbook p. 119-120 and answer HW questions  p. 120 #1 a and b and #4 |
| Block B Thursday Feb 7  Blocks E/G Sunday Feb 10 | Test |

Review Questions to help you study:

1. Choose one of the methods of pollution control and discuss how it works and the pros and cons of the method.
2. Briefly explain the characteristics of a private good.
3. What is the free rider problem?
4. Why is international cooperation necessary to protect “the commons”?
5. True or False – Explain. Property held in common by a community tends to be used efficiently.
6. Why is a positive externality considered to be a market failure? Explain in words and with a graph.
7. In the case of a negative externality how are MPC and MSC different?
8. Describe in writing and on a graph how a government can address under-provision of a merit good
9. Describe in writing and on a graph how a government could decrease the sale of plastic if it is found to release dangerous pollutants during production.
10. How can poverty be linked to threats to sustainability?
11. Explain what a government could do if they wanted to raise the price of pollution.
12. How do tradeable permits allow for different opportunity costs for different firms?

Second Semester Syllabus -- **Unit 5 –Market Failure**

The government’s role in addressing market failures in terms of externalities, pollution control, protecting public space, sustainable development

Commentary

**Unit 6 Introduction to Macroeconomics**

National Income Accounts GDP/GNP

Introduction to macroeconomic policy objectives

Business Cycle and Circular Flow with leakages and injections.

**Unit 7**

**The Government’s role in the Economy /Macro Economic goals**

Income distribution or Equity, Money and Banking

Taxes, Government Spending and Social Services

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**Unit 8 Aggregate Supply and Aggregate Demand**

AD/AS models and graphs. Introduction to fiscal and monetary policy.

**Unit 9 Unemployment and Inflation**

Causes/Effects and measurement. Government management of Unemployment and Inflation. Fiscal and Monetary Policy. Economic Growth, Supply side theories.