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IGCSE ECONOMICS

MARKET FAILURE

1. EXPLAIN WHY MARKET FAILURE COULD HAPPEN IN AN ECONOMY

The following could be the reasons for market failure in an economy:

1. Firms may come to dominate and have monopoly power leading to higher prices and lower level of output.
2. There may be significant differences in terms of income, wealth which gives some consumers much more power than others.
3. Merit goods which are socially desirable may be under provided and under consumed.
4. Demerit goods which are socially undesirable may be over provided and over consumed. Public goods which cannot be easily provided through a market system may not be provided at all.
5. Resources cannot always easily move from one use to another. Example labour may not have the necessary skills/information.
6. Externalities may not be taken into account in consumption and production decisions.

Also note: All material provided in the LMR section is purely based on past papers. The material are guidelines around which you need to elaborate your answers.

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