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| ***External influences – Market failure*** |

**Introduction** (p.130-133):

* Examples of **market failure** and how governments can **intervene**
* *Product and market factors are where the prices of goods, services and* ***factors*** *of* ***production*** *are determined*
* *Prices are* ***signals*** *to the allocation of resources*

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| **The below illustrate this:** 1. World demand for **rice** rose in 2008 and 2009
* The world price for rice **DOUBLED**
* Farmers is rice-growing countries were encouraged (by the high price) to plant **MORE RICE** and **LESS** of other crops
* Resources were **allocated** to the product (rice) with the **INCREASED PRICE**
1. High salaries in **Singapore’s financial sector** attract staff into financial services and away from other traditional careers (teaching, retailing)
* **Labour resources** are being **allocated** to one **industry** (FINANCE) and away from others as a result of **WAGE differences**
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*The two examples illustrate how markets* ***SHOULD*** *work.*

*Sometimes they do not operate in this way and then* ***MARKET FAILURE*** *occurs*

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| **Market failure** |

Let’s look at three examples of **market failure**:

1. ***Market failure: External costs***

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| **Pollution:** * *Society may pay for the cleaning up of the process; health of citizens etc.*
* *The market has failed to reflect the true and total cost of production in the product*
* *If the cost was included, private and external costs – less would be demanded and produced.*
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1. ***Market failure: Labour training***

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| **Training:*** *Training costs a firm money but there is a chance that staff leave and are ‘poached’ by competitors.*
* *Therefore there is a lack of incentive for firms to fully train their staff so many firms do not make enough effort or provision to train staff*
* *Therefore, the country will have a shortage of skilled workers and professional staff, reducing economic growth*
* *The under-provision of training is a form of market failure*
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1. ***Monopoly producers***

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| **Monopoly:*** *When one firm dominates a market*
* *Business interested in making profits, incentive to restrict output and raise prices*
* *Therefore, this will lead to an under-provision of goods and services compared with what consumers would really like – this is a market failure*
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***Correcting and controlling market failure:***

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|  | ***Stakeholder groups*** | ***Corrective policy action*** |
| ***External costs*** | *Consumers**Government**Workers* | *Business may take action – bad publicity* *Government imposes fines etc.* |
| ***Labour training*** | *Consumers**Government**Shareholders* | *Industry-wide organisations – member guilds**Government makes more training and education available* |
| ***Monopoly producers*** | *Consumers**Government*  | *Purchase from different suppliers – internet widens choice**Competition policies from the government*  |