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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** |

*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.* |

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* |

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* |

***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* |