

# **AQA Economics A-level**

#### Microeconomics

Topic 8 - Market Mechanism, Market Failure and Government Intervention in Markets

Flashcards

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#### Ad valorem taxes













#### Ad valorem taxes

Taxes that are a percentage of price









# Asymmetric information











## Asymmetric information

When one party knows more or has better information than the other party in a transaction e.g a patient and doctor.











# Competition and Markets Authority (CMA)











# Competition and Markets Authority (CMA)

Government department in the UK that aims to reduce anti-competitive strategies.











# Competition policy











## Competition policy

Government intervention that reduces monopoly power and introduces competition to reduce consumer exploitation









## Complete market failure







## Complete market failure

Occurs when there is a missing market.











## Consumption externality







## Consumption externality

An externality (which may be positive or negative) generated through consumption of a good or service.









# Demerit good













### Demerit good

Goods where the social costs in consumption exceed the private costs in consumption.











## Department for Business, Innovation and Skills (BIS)











# Department for Business, Innovation and Skills (BIS)

An organisation that aims to enhance UK industry performance.











# Deregulate











#### Deregulate

Reduce the amount an industry is regulated











#### **Economic welfare**











#### Economic welfare

Quality of life of a population











#### **EU** directories











#### **EU** directories

Set of checks EU members must pass, ensuring all members have similar/ the same legislation











# EU regulations











## EU regulations

Set of laws all EU members must comply with









# Externality











## Externality

External effects imposed on society derived from the production or consumption of a good or service.









# Free rider problem









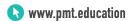




### Free rider problem

Once a public good is produced, there is no way to control who benefits from it







## Geographical immobility of labour











# Geographical immobility of labour

Once a public good is produced, there is no way to control who benefits from it







#### Government failure













#### Government failure

Where government intervention leads to a lessening of economic welfare and a misallocation of resources.











#### Government intervention













#### Government intervention

When a government actively intervenes and affects market operation.









### Immobility of factors of production











# Immobility of factors of production

When it is hard for factors of production to move across different areas within the economy.











# Immobility of labour











# Immobility of labour

The inability of labour to move from one occupation to another. There are two main types, geographical and occupational.









# Imperfect information













# Imperfect information

When an economic agent does not hold all the necessary information to make an informed decision about a product.









## Incentive













#### Incentive

Something that motivates an agent in the economy









# Income Inequality













## Income Inequality

Differences in size of earnings between households/individuals









### Market distortions











#### Market distortions

Where interference in a market affects behaviour and prices/output











# Market economy











## Market economy

Where output and prices are determined by the workings of supply and demand.









### Market failure













#### Market failure

Occurs when the market mechanism leads to a misallocation of resources







# Merit good











## Merit good

Goods where the social costs in consumption deceed the private costs in consumption.









### Misallocation of resources













#### Misallocation of resources

Resources are not distributed optimally











## **Nationalise**











#### **Nationalise**

Convert from private ownership to public (government) ownership











# Negative externality











# Negative externality

Negative external effects imposed on society derived from the production or consumption of a good or service











### Non-excludable













#### Non-excludable

A good or service where you are unable to prevent non-paying consumers from benefiting or using the good.









### Non-rival











#### Non-rival

Where one person's consumption of a good or service does not decrease the amount available for consumption by another consumer











# Occupational immobility of labour











# Occupational immobility of labour

Occurs where workers find it difficult to transfer between different occupations due to a lack of transferable skills.











# Outsourcing













## Outsourcing

When a private sector firm bids to offer a public service









## Partial market failure













### Partial market failure

Occurs when the market is producing a good or service, but at the wrong quantity or price









## **Penalties**











#### **Penalties**

Fines or other forms of punishment that make producing output less profitable









# Positive externality













## Positive externality

Positive external effects imposed on society derived from the production or consumption of a good or service.













## Price ceiling











## Price ceiling

A price above which trade is illegal









### Price controls











#### Price controls

Government controls on prices e.g maximum or minimum prices









## Price floor















### Price floor

A price below which trade is illegal









## Price mechanism











#### Price mechanism

The way in which prices are determined through forces of supply and demand









## Private benefit









### Private benefit

Benefits incurred to the individual through consumption or production









### Private cost











### Private cost

Costs incurred to the individual through consumption or production











# Private good













## Private good

An excludable, rival good









## **Privatise**













#### **Privatise**

Convert from public (government) ownership to private ownership









# Production externality











## Production externality

An externality (which may be positive or negative) generated through production of a good or service.







# Productivity gap











## Productivity gap

Difference between productivity of UK labour and other countries' labour







# Property right











## Property right

Legal ownership of a resource







# Public good











## Public good

A non-excludable, non-rival good











## Public sector













### Public sector

The part of the government financed by and controlled by the government





















A good that is not fully non-rival and/or not fully non-excludable





















Goods that have characteristics of both public and private goods











# Rationing











## Rationing

Limiting the amount or quantity of a good











# Regulation











## Regulation

Imposing policies, rules, laws, constraints, etc.











## Regulatory capture









## Regulatory capture

Regulatory bodies become dominated by the industries in which they were regulating, leading to a decrease in economic welfare









### Resource misallocation











### Resource misallocation

When resources are allocated in a way that doesn't maximise economic welfare.









# Signalling











# Signalling

Where a change in the price of goods or services that show that supply or demand should be adjusted.













### Social benefits











### Social benefits

The sum of private benefits and external benefits









### Social cost











### Social cost

The sum of private costs and external costs









## Specific taxes









## Specific taxes

Taxes that are a set price per unit









# State provision











### State provision

Where the government provides a good or service









# Subsidy











## Subsidy

Payment made by the government (or other authority) to incentivise production of a good.











### Tax











### Tax

Compulsory levy imposed by the government to de-incentivise production of a good.









## Unintended consequences













### Unintended consequences

When the actions of people or a government have consequences that were not anticipated.











### Vouchers











#### Vouchers

Allowances to utilise goods or services at a discount rate





