

# 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 exceed 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



# Quasi-public good



# Quasi-public good

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



# Quasi-public good



# Quasi-public good

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

