

# Edexcel (A) Economics A-level

## **Theme 1: Introduction to Markets and Market Failure**

### 1.3 Market Failure

#### 1.3.1 Types of market failure

Notes



- 📖 Market failure occurs when the free market fails to allocate resources to the best interests of society, so there is an **inefficient allocation of scarce resources**.
- 📖 Economic and social welfare is not maximised where there is market failure.

### 📖 **Types of market failure:**

- **Externalities**

An externality is the cost or benefit a third party receives from an economic transaction outside of the market mechanism. In other words, it is the spill-over effect of the production or consumption of a good or service.

- **The under-provision of public goods**

Public goods are non-excludable and non-rival, and they are underprovided in a free market because of the free-rider problem.

- **Information gaps**

It is assumed that consumers and producers have perfect information when making economic decisions. However, this is rarely the case, and this imperfect information leads to a misallocation of resources.

