Glossary Yr 12 Micro Economics. Edexcel Theme 1.3 Market failure

Asymmetric information	
	Positive or negative consequences from production that don't affect the producer's internal accounts/finances.
	Factors that have a measurable benefit to society that are not reflected in benefits to the producer.
External costs	
	When an individual can benefit from a product or service without paying. This damages free market incentives.
	When the consumer is not in possession of all the facts and is therefore can't know how to maximise their utility.
Information gaps	
	The correct way to label the demand curve is MPB when drawing a market failure diagram.
	The correct way to label the supply curve is MPC when drawing a market failure diagram.
	When the free market equilibrium is adrift from the socially optimal point & fails to maximise economic welfare.
	Goods that have greater utility than the consumer perceives, e.g. better for you than you realise.
Misallocation of resources	
	When production creates costs to third parties but not to the producer itself, e.g. pollution affecting local residents and perhaps depressing local house prices.
	The nature of the situation/service makes it impossible to stop people from benefiting, even if they're not paying
Non-rivalry	
	When production creates benefits to third parties but not to the producer itself, e.g. jobs created at local suppliers.
	The benefits a firm receives from its market transactions (in effect, its revenue, price x quantity)
	The total costs to a firm from supplying to meet market demand. These are internal costs only.
	Goods or services that are excludable and rivalrous, e.g. a bus that can take up to 53 people: no more. So private sector organisations have an incentive to offer a paid-for service that may prove profitable.
Public goods	
	The total of internal (private) revenues plus external benefits.
	The total of internal (private) costs plus external costs.
	The equilibrium point between the marginal social costs curve supply) and marginal social benefits (demand).
	When information is equally available to both parties to a transaction
	Because there is no profit incentive for firms to supply public goods, they will only be supplied by the state. But the state may have greater priorities, e.g. more spending on the NHS rather than on public water fountains.
	When government action such as taxation or subsidy is successful in shifting output to the social optimum point.
Welfare loss	

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Asymmetric information	
Externalities	
External benefits	
External costs	
Free rider problem	
Imperfect market information	
Information gaps	
Market failure	
Merit goods	
Misallocation of resources	
Negative production externalities	
Non-excludability	
Non-rivalry	
Positive consumption externalities	
Private benefits	
Private costs	
Private goods	
Public goods	
Quasi-public goods	
Social benefits	
Social costs	
Socially optimal equilibrium	
Symmetric information	
Under-provision of public goods	
Welfare gain	
Welfare loss	

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Asymmetric information	When one side to a transaction has hugely more (or better) information than the other
Externalities	Positive or negative consequences from production that don't affect the producer's internal accounts/finances.
External benefits	Factors that have a measurable benefit to society that are not reflected in benefits to the producer.
External costs	Factors that have a measurable cost to society that are not reflected in extra costs borne by the producer.
Free rider problem	When an individual can benefit from a product or service without paying. This damages free market incentives.
Imperfect market information	When the consumer is not in possession of all the facts and is therefore can't know how to maximise their utility.
Information gaps	When there are gaps in the consumer or producer's market knowledge.
Marginal private benefit	The correct way to label the demand curve is MPB when drawing a market failure diagram.
Marginal private costs	The correct way to label the supply curve is MPC when drawing a market failure diagram.
Market failure	When the free market equilibrium is adrift from the socially optimal point & fails to maximise economic welfare.
Merit goods	Goods that have greater utility than the consumer perceives, e.g. better for you than you realise.
Misallocation of resources	When producers are over or under-allocating resources compared with the socially optimal position.
Negative production externalities	When production creates costs to third parties but not to the producer itself, e.g. pollution affecting local residents and perhaps depressing local house prices.
Non-excludability	The nature of the situation/service makes it impossible to stop people from benefiting, even if they're not paying
Non-rivalry	The nature of the situation/service means that supply is limitless, so my consumption doesn't affect yours.
Positive consumption externalities	When production creates benefits to third parties but not to the producer itself, e.g. jobs created at local suppliers.
Private benefits	The benefits a firm receives from its market transactions (in effect, its revenue, price x quantity)
Private costs	The total costs to a firm from supplying to meet market demand. These are internal costs only.
Private goods	Goods or services that are excludable and rivalrous, e.g. a bus that can take up to 53 people: no more. So private sector organisations have an incentive to offer a paid-for service that may prove profitable.
Public goods	Goods or services that are non-excludable and non-rivalrous, so there's no incentive for a private firm to supply. Therefore there would be serious under-provision if it wasn't for provision by the public sector, e.g. roads.
Social benefits	The total of internal (private) revenues plus external benefits.
Social costs	The total of internal (private) costs plus external costs.
Socially optimal equilibrium	The equilibrium point between the marginal social costs curve supply) and marginal social benefits (demand).
Symmetric information	When information is equally available to both parties to a transaction
Under-provision of public goods	Because there is no profit incentive for firms to supply public goods, they will only be supplied by the state. But the state may have greater priorities, e.g. more spending on the NHS rather than on public water fountains.
Welfare gain	When government action such as taxation or subsidy is successful in shifting output to the social optimum point.
Welfare loss	The loss to society that comes when the actual equilibrium is away from the socially optimal point.

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