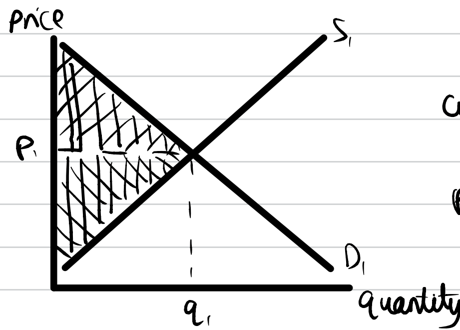
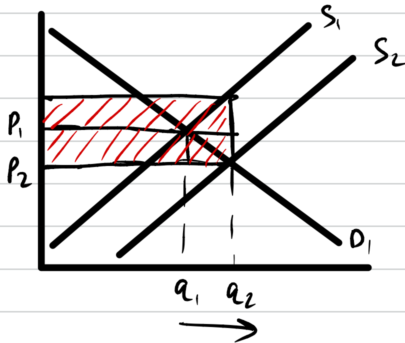
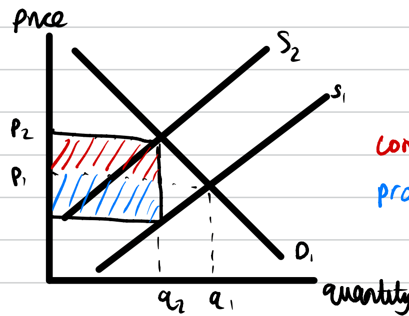
Microeconomics Market failure



Consumer surplus: difference between price willing to pay, and actual price paid.

producer surplus: difference between price willing to sell at, and actual price paid.





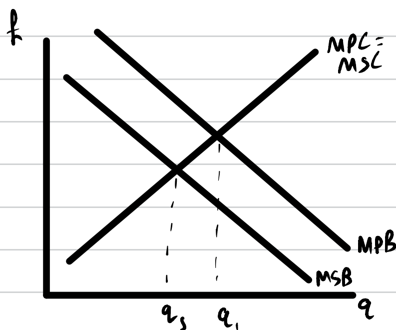
consumer burden] tax revenue
producer burden]

☺: increased consumption of merit goods e.g. gym
☹: opportunity cost

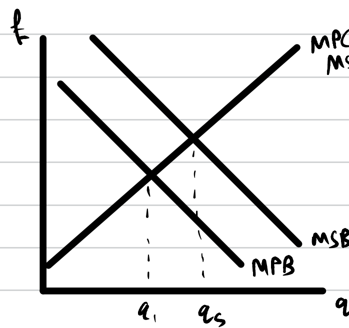
Subsidy: a payment, causing supply to shift to the right.

☺: reduced consumption of demerit goods, tax revenue can be used in useful ways
☹: if Demand was inelastic; quantity wouldn't fall, higher consumer burden, unequal.

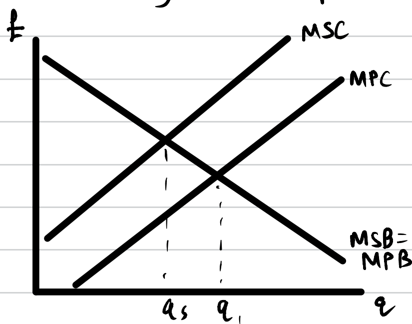
Indirect Tax: a cost of production, causing supply to shift to the left.



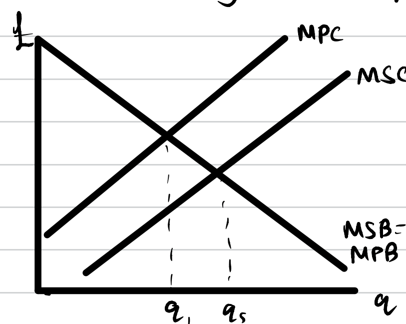
Negative externality in consumption (demerit goods)



Positive externality in consumption. (merit goods)



Negative externality in production



Positive externality in production.

Externalities: cost or benefit from a transaction to a third party (anyone except the buyer or seller e.g. taxpayer, neighbour...).

☹: a type of market failure → misallocation of resources → under/overconsumption

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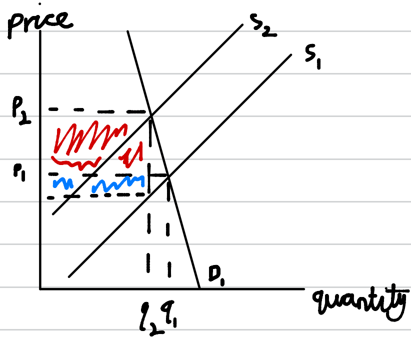
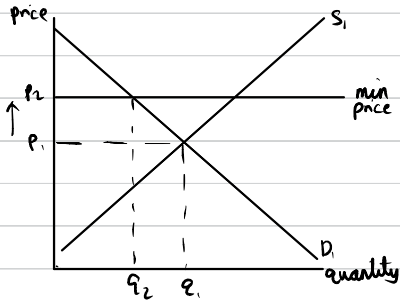


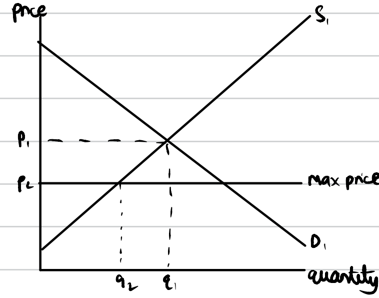
Tax when demand is inelastic



☺ q_1 has fallen to q_2 for demerit good

☹ demand could be inelastic, then firms would make profit from selling demerit goods.

MIN PRICE



might be inelastic so → may keep quantity high.

☺ lower price for merit goods e.g. wifi/electricity/rent

☹ quantity falls (excess demand)

MAX PRICE

Should governments intervene or leave to market forces?