14.01 Principles of Microeconomics, Fall 2007
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November 2, 2007

Lecture 21

Why Markets Fail

Outline

1. Chap 16: *Why Markets Fail*

1 Why Markets Fail

1.1 Market Power

Inefficiency arises when a producer or supplier of a factor input has market power, for example, monopoly power, that can profitably charge a price greater than marginal cost.

1.2 Incomplete Information

For example, in the second-hand car market, sellers know more about the cars than buyers. Final allocation might be inefficient when there is incomplete information.

1.3 Externalities

Consumption or production has indirect effect on other consumption or production, which is not reflected in market prices. An example is air and water pollution by a factory.

1.4 Public Goods

For one firm's new technology, others may copy it if there is no patent law; all firms are thus waiting for others to invent.

Examination 2 Review

Examination: Chapter 6, 7, 8, 9, and 16. (Review Lectures 10–20.)