Microeconomic Objectives and Policies

Section B: Essay Guiding Questions

Essay Q1:

Part (a)

- Define what market failure is.
- Establish the sources of market failure that stem from pollution.
- Identify and <u>explain</u> allocative inefficiency in 2 markets.
    - Markets that causes pollution in production e.g. electricity
    - Markets that has information failure on MPB where perceived MPB > Real MPB e.g. plastic bags / plastic bottles
    - Need to show how it leads to DWL

Part (b)

- Identify and discuss 2 policies to deal with market failure arising from pollution.
- Think of policies that reduces production and consumption e.g. taxes,
- Explain how these policies work with use of economic framework.
- Explain the limitations of the policies with regards to effectiveness.

Essay Q2

Part (a)

- Define what is market failure.
- Identify and explain 2 sources of market failure associated with street lighting
    - What characteristics does street lighting exhibit - is there partial or complete market failure?
    - Based on the preamble "negative externalities resulting from the generation of electricity for the lighting on the environment and the effect of bright street lights on wildlife" – what other sources of market failure is there?

Part (b)

- Identify and discuss 2 policies to deal with market failure in street lighting.
- "discuss" requires both T and AT – how the policy works and its limitations.
- For public goods – what type of government intervention is required? What are some of the limitations of this and how can the government decide how much of street lighting is socially optimal?
- For goods with negative externalities – what type of government intervention is required? In the context of street lighting – how can we tweak the policies we have learnt to apply it to the context?

Essay Q3

Part (a)

- What are the 2 different types of information failure?
- Identify and explain one source of market failure for the market for healthcare services and market for health insurance.
- Is it possible to break down the type of healthcare services further? What type of healthcare services has higher information failure?
- Why will there be market failure when there is asymmetric information? How do we elaborate on the problems associated with it and how do we link to society's welfare not being maximized?

Part (b)

- “discuss” requires both T and AT – how the policy works and its limitations.
- What are possible government policies to manage information failure?
- In the market for healthcare services, what are the possible policies to reduce market failure? Apart from education/campaigns, what other policy is relevant to increase consumption?
- In the market for health insurance, what are relevant policies to reduce adverse selection and moral hazard? What are the limitations of these policies?

Essay Q4

- “discuss” requires both T and AT – what are your thesis arguments, and what are your anti-thesis arguments?
- When is government intervention needed? What are objectives of the government?
- When there is market dominance, what are objectives of the government that is/are not met?
- How do we illustrate market dominance diagrammatically? How do you illustrate the concepts of efficiency and equity?
- “always” – under what circumstances will market dominance lead to positive outcomes such that government intervention is not needed?