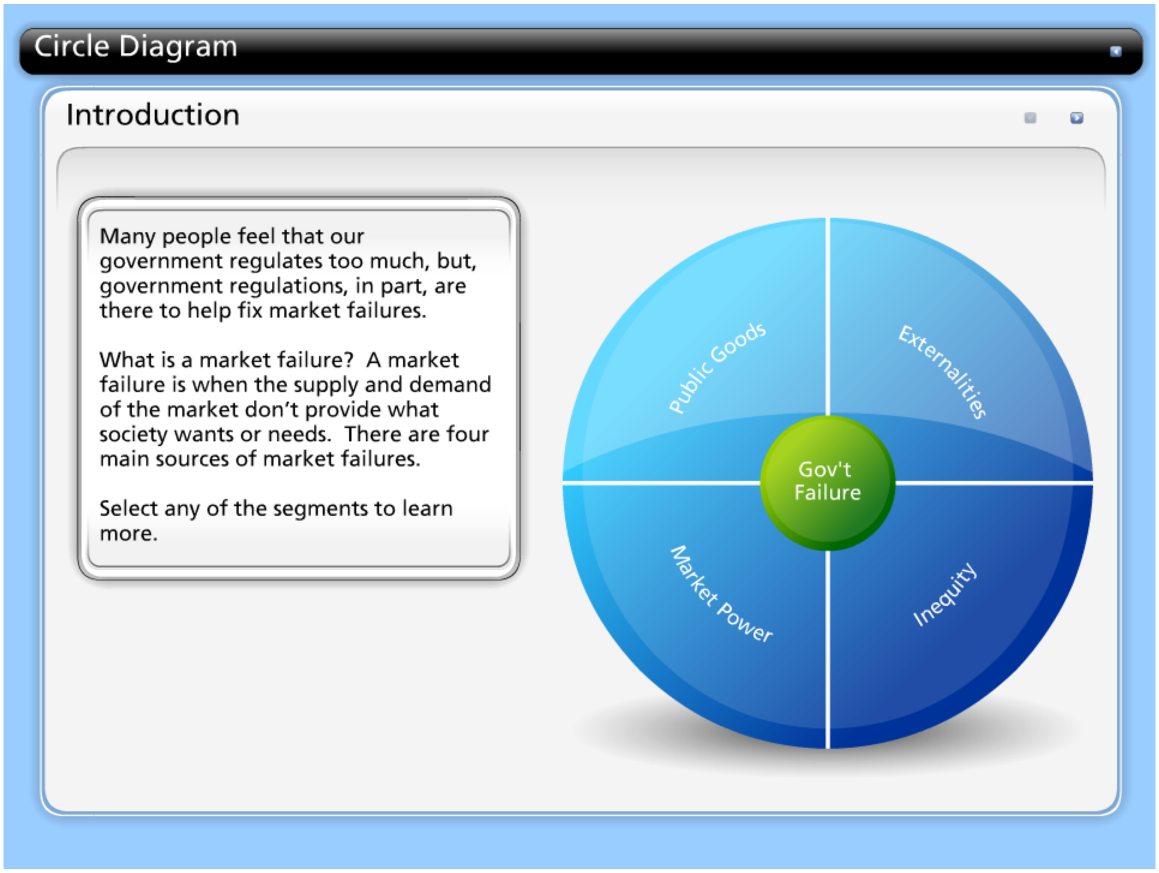
Introduction

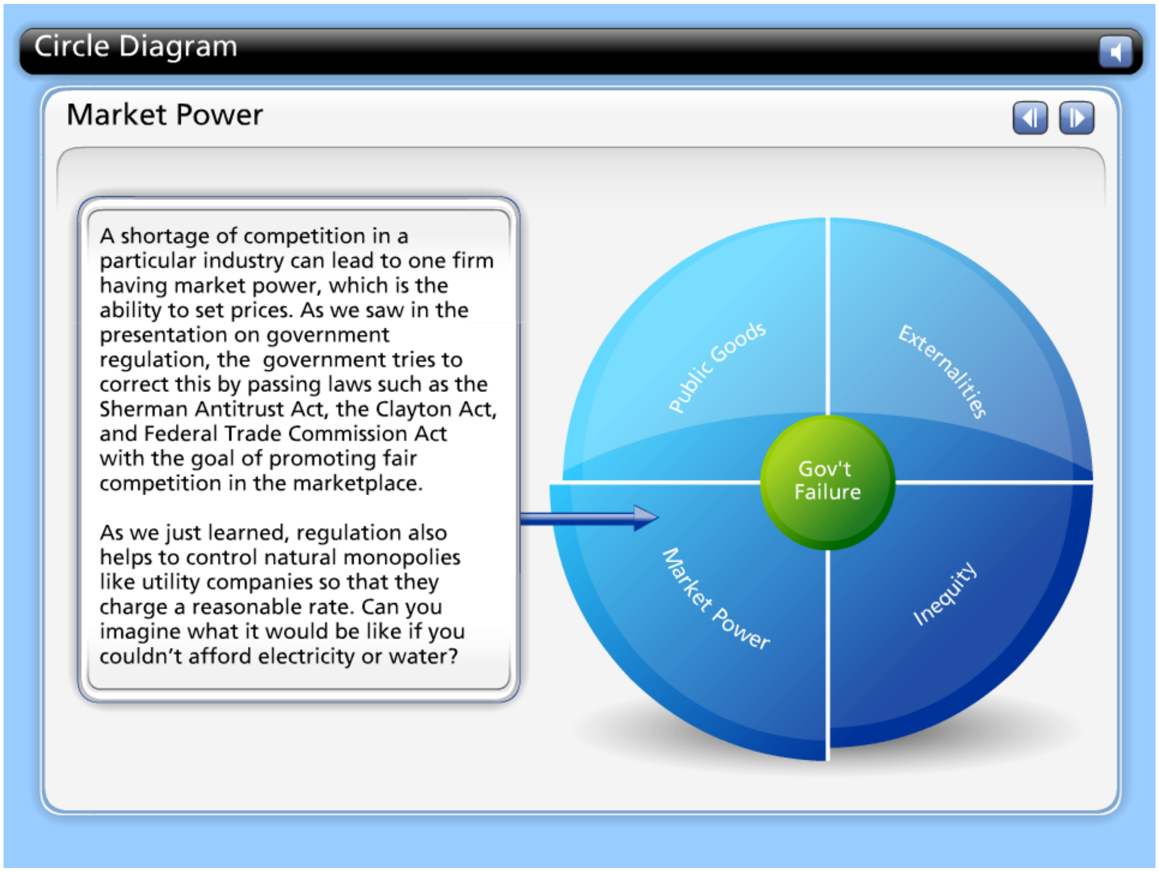


Many people feel that our government regulates too much, but, government regulations, in part, are there to help fix market failures.

What is a market failure? A market failure is when the supply and demand of the market don't provide what society wants or needs. There are four main sources of market failures.

Select any of the segments to learn more.

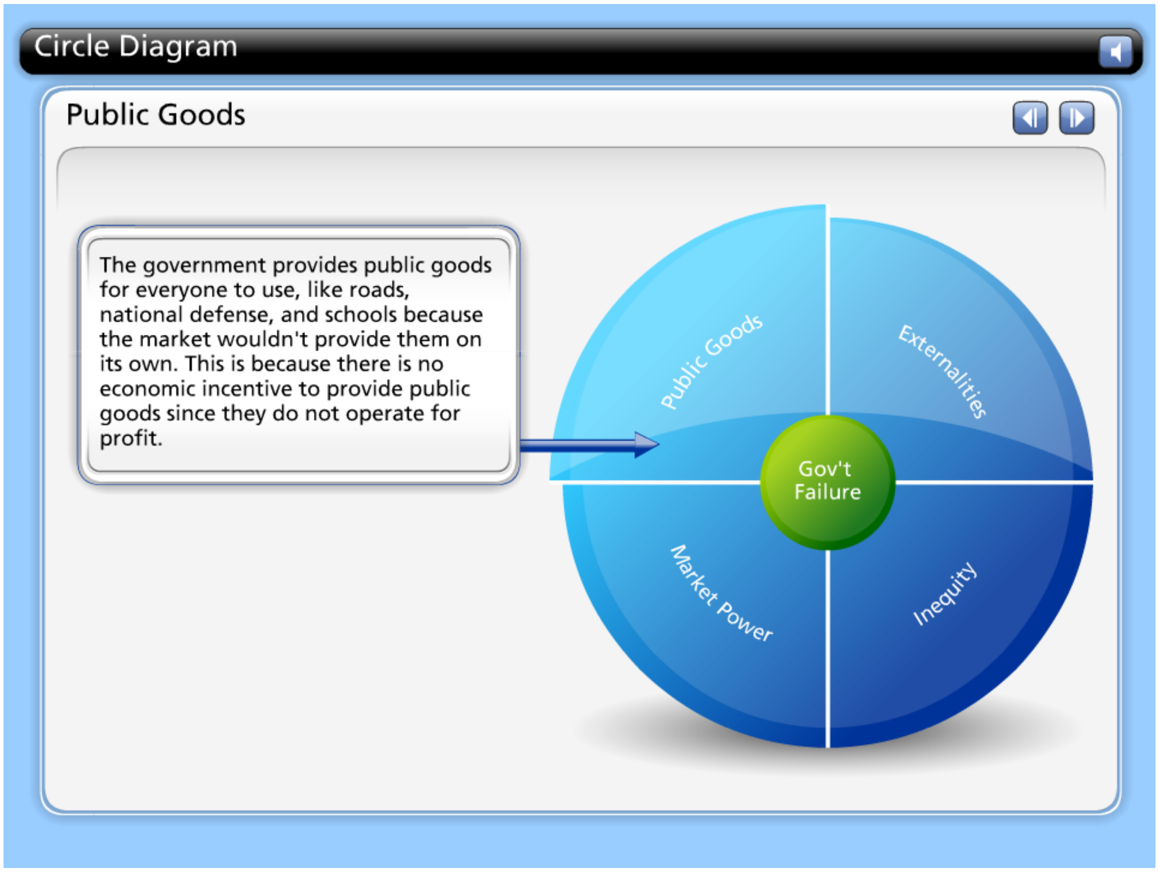
Market Power



A shortage of competition in a particular industry can lead to one firm having market power, which is the ability to set prices. As we saw in the presentation on government regulation, the government tries to correct this by passing laws such as the Sherman Antitrust Act, the Clayton Act, and Federal Trade Commission Act with the goal of promoting fair competition in the marketplace.

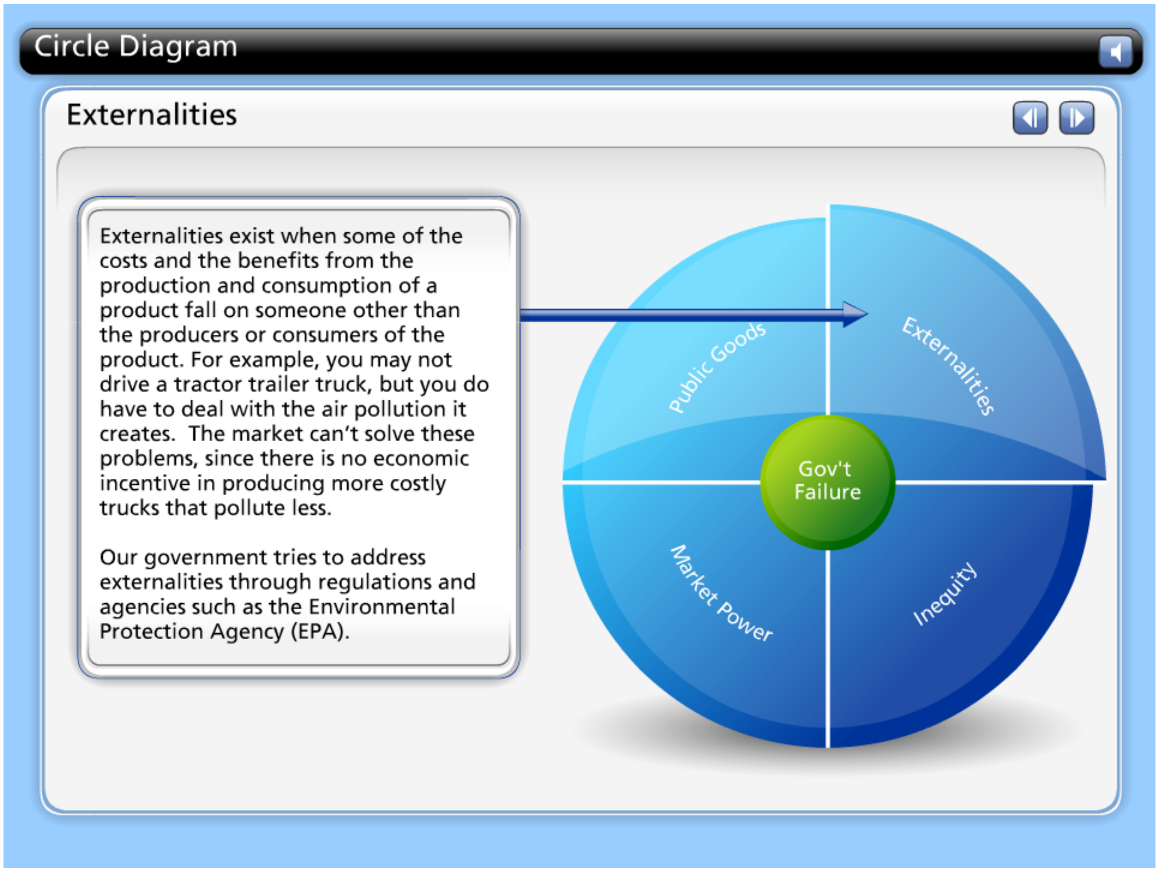
As we just learned, regulation also helps to control natural monopolies like utility companies so that they charge a reasonable rate. Can you imagine what it would be like if you couldn't afford electricity or water?

Public Goods



The government provides public goods for everyone to use, like roads, national defense, and schools because the market wouldn't provide them on its own. This is because there is no economic incentive to provide public goods since they do not operate for profit.

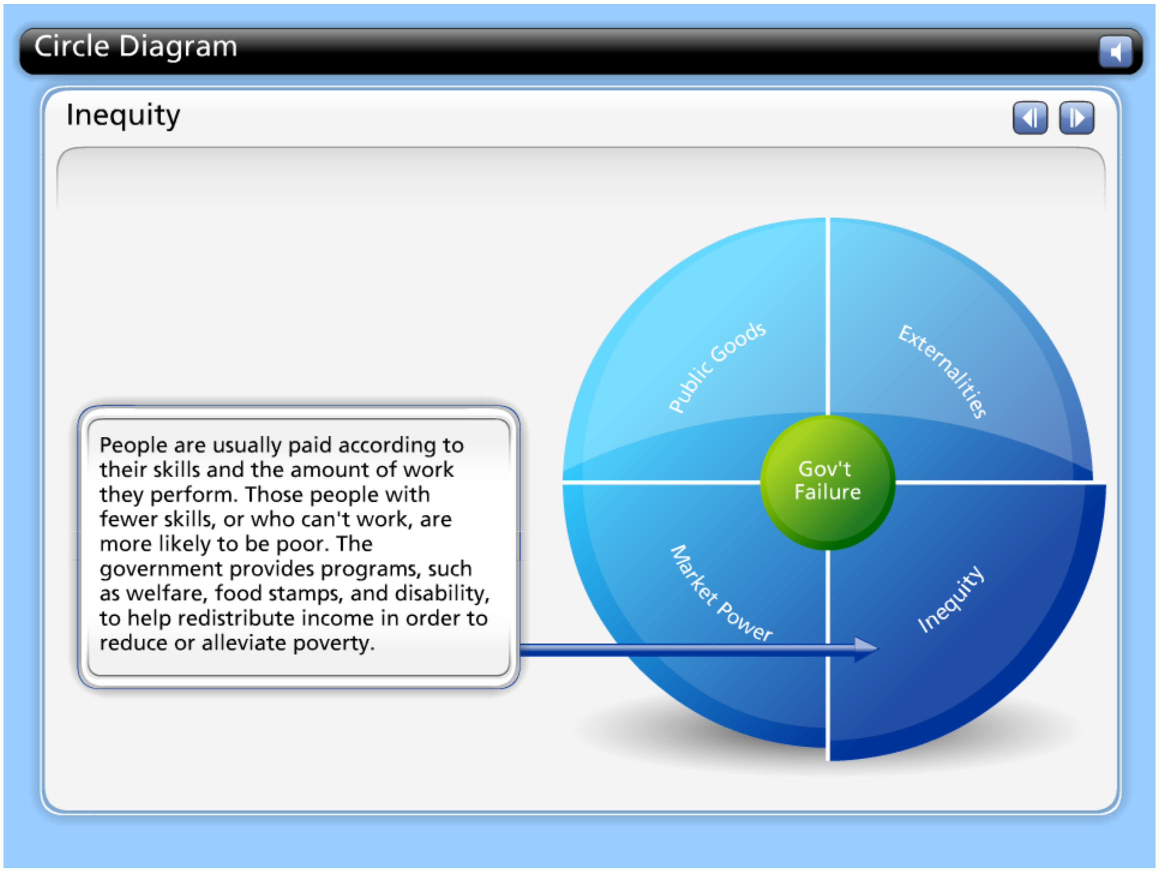
Externalities



Externalities exist when some of the costs and the benefits from the production and consumption of a product fall on someone other than the producers or consumers of the product. For example, you may not drive a tractor trailer truck, but you do have to deal with the air pollution it creates. The market can't solve these problems, since there is no economic incentive in producing more costly trucks that pollute less.

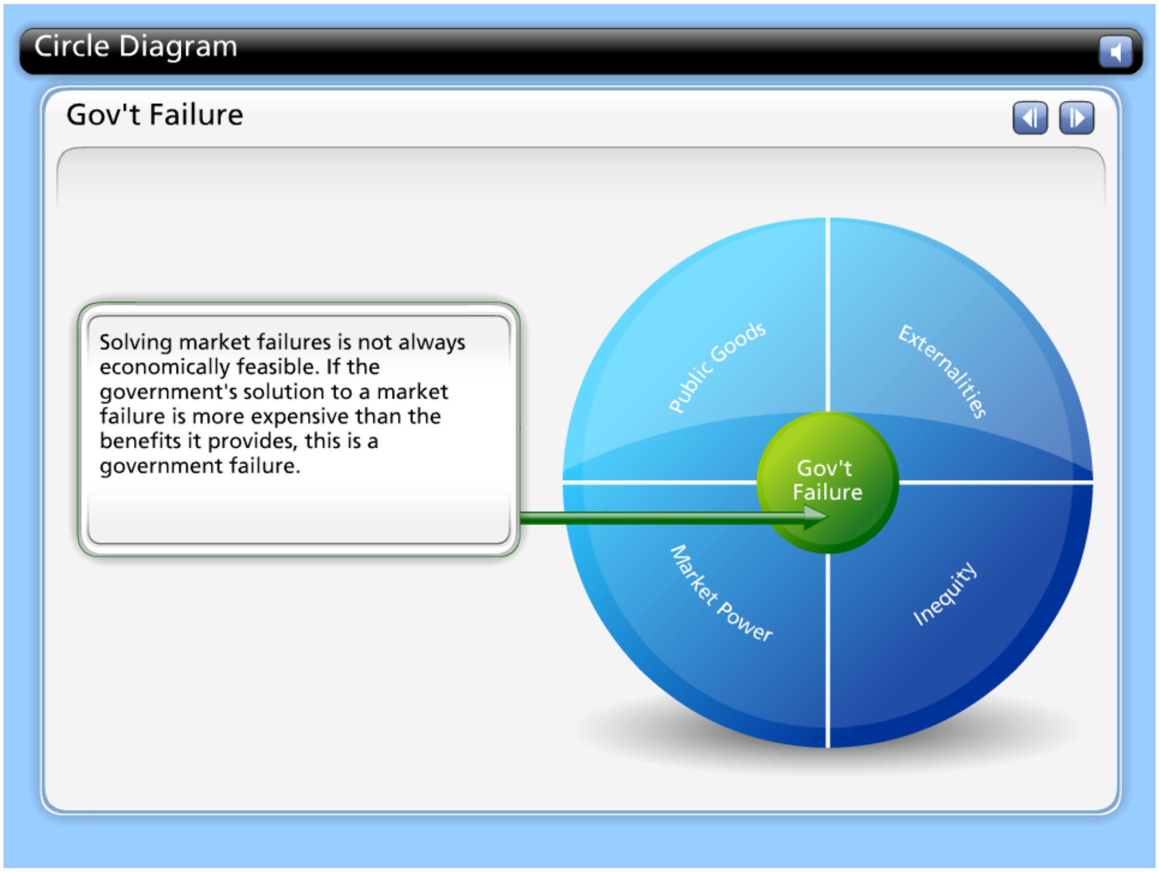
Our government tries to address externalities through regulations and agencies such as the Environmental Protection Agency (EPA).

Inequity



People are usually paid according to their skills and the amount of work they perform. Those people with fewer skills, or who can't work, are more likely to be poor. The government provides programs, such as welfare, food stamps, and disability, to help redistribute income in order to reduce or alleviate poverty.

Gov't Failure



Solving market failures is not always economically feasible. If the government's solution to a market failure is more expensive than the benefits it provides, this is a government failure.