

(d) Evaluate the argument that market failure can be solved by government intervention.

(20)

Market failure occurs when there is a mis-allocation of resources in a market, resulting in a number of social costs. This could occur when a demerit good such as tobacco or alcohol is being over consumed or when a merit good like education is being under-consumed. Government intervention is action taken by the government to reduce negative externalities and market failure.

One form of Government intervention is regulation and legislation. This is where the government aims to reduce and control the quantity of ^{demand for} a product. A legislation is regulation through law. This is the case with alcohol as by law, when you are over a limit you are not allowed to drive. This reduces the social cost as people are less likely to drink and drive and cause accidents. However, the downside to this intervention is that it's hard to completely regulate everything as it is costly to the government.

Another form of Government intervention is an indirect tax which is a tax that is only paid when purchasing a certain product. This can reduce market



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failure because it could encourage consumers to not buy certain products that are over-consumed and have a number of social costs. This can be applicable to tobacco as it is over-consumed and a risk to health, however, it is addictive so people ~~as~~ that smoke are still likely to continue smoking regardless of the price.

Another way that the government can intervene to reduce market failure is by offering free provision of merit goods that are underconsumed. This has been done by the government in the UK ~~to~~ by offering free education and healthcare which will help to improve the living standards in the UK. The downside to this, though is that it increases government expenditure and the deficit of the budget.

However, ~~if~~ the free market makes market difficult to solve and the success of government intervention will depend on how much they intervene. To completely control what people do and consume can be very expensive and lead to high levels of poverty as a result of the expenditure.

