Markets & Efficiency

Efficiency, market failure, externalities, public goods and market modification

How to use this guide

Information in this guide is colour-coded and labelled. Each coloured box carries a word label as well as a colour, so you can use it whether or not you distinguish the colours easily.

KEY DEFINITION	The precise meaning of a syllabus term. Learn the wording.
AUSTRALIAN CONTEXT	Real Australian evidence or examples you can quote.
WORKED EXAMPLE	A model or diagram worked through step by step.
COMMON MISTAKE	An error that commonly costs marks — check yourself against it.
EXAM TIP	How to turn the knowledge into marks in an exam response.
BRETTONOMICS INTERACTIVE	A matching interactive tool on brettonomics.com.

SECTION 1 Key concepts and terminology

1.1 The three efficiencies

Term	What it means
Allocative efficiency	Resources are allocated to produce the combination of goods and services society most values. Occurs where marginal social benefit equals marginal social cost.
Productive efficiency	Output is produced at the lowest possible cost, using the fewest resources. The economy operates on its production possibility curve.
Dynamic efficiency	Efficiency over time — the capacity of a market to innovate, invest and improve products and processes.

1.2 Market structures

Term	What it means
Perfect competition	Many small buyers and sellers, an identical product, free entry and exit, and perfect information. Firms are price takers.

Term	What it means
Monopolistic competition	Many firms selling differentiated products with relatively free entry, giving each firm limited price-setting power.
Oligopoly	A few large firms dominate the market. Firms are interdependent, so each must consider rivals' reactions.
Monopoly	A single seller with no close substitutes and high barriers to entry. The firm is a price maker.

1.3 Types of goods

Term	What it means
Private good	Rival and excludable — one person's consumption prevents another's, and non-payers can be excluded.
Public good	Non-rival and non-excludable — consumption by one does not reduce the amount available, and non-payers cannot be excluded.
Merit good	A good under-consumed by the market because its benefits extend beyond the individual, or consumers undervalue it.
Demerit good	A good over-consumed by the market because its costs extend beyond the individual, or consumers undervalue the harm.
Common resource	Rival but non-excludable — the combination that produces the tragedy of the commons.

1.4 Market failure terms

Term	What it means
Market failure	When the price mechanism allocates resources in a way that is not socially optimal.
Externality	A cost or benefit from production or consumption that falls on a third party and is not reflected in the market price.
Market signals	The information prices carry to producers and consumers about relative scarcity and value.
Incentives	The rewards and penalties that motivate economic decisions. Market failure often reflects incentives that are misaligned with social wellbeing.

> IN ONE SENTENCE Market failure occurs when prices fail to carry the full social costs and benefits of a decision.

SECTION 2 Efficiency and the optimal operation of markets

2.1 Allocative efficiency

- Achieved when it is impossible to reallocate resources to make anyone better off without making someone worse off.
- In a competitive market this occurs where price equals marginal cost, so the value placed on the last unit equals the cost of producing it.
- In the presence of externalities the condition becomes marginal social benefit equals marginal social cost.

2.2 Productive efficiency

- Achieved when output is produced at the lowest possible average cost, so no resources are wasted.
- Represented by any point on the production possibility curve; a point inside the curve is productively inefficient.

2.3 Dynamic efficiency

- Concerns performance over time rather than at a point in time: investment, research and development, and innovation.
- A market can be allocatively efficient today yet dynamically inefficient if firms have no incentive to innovate.

2.4 Optimal versus socially desirable outcomes

KEY DEFINITION

Two different standards

A market (optimal) outcome. The result the price mechanism produces, based on private costs and private benefits only.

A socially desirable outcome. The result that maximises society's wellbeing, counting all costs and benefits including those falling on third parties.

Why they differ. Wherever an externality exists, the private calculation and the social calculation diverge — and the market result is no longer socially desirable.

COMMON MISTAKE

Efficient does not mean fair. An allocatively efficient outcome can still be deeply unequal. Efficiency is about how resources are used, not about how the resulting income is distributed. Do not treat the two as the same judgement.

IN ONE SENTENCE Markets optimise against private costs and benefits; society cares about social costs and benefits.

SECTION 3 Market structures and the limits to perfect competition

3.1 The spectrum of market structures

- Market structures run from perfect competition, through monopolistic competition and oligopoly, to monopoly.
- As competition weakens, firms gain price-setting power, output tends to fall and price tends to rise relative to the competitive outcome.
- Perfect competition is a theoretical benchmark rather than a description of real markets — its value is as a standard against which real outcomes are judged.

3.2 Economic forces that limit perfect competition

- **Economies of scale:** larger firms achieve lower average costs, so big firms out-compete small ones.
- **Barriers to entry:** high capital requirements, established brands, patents and licensing keep new firms out.
- **Product differentiation:** products are differentiated by brand and quality, so firms are not price takers.
- **Imperfect information:** consumers and producers rarely have perfect information.
- **Mergers and acquisitions:** firms grow by acquisition, concentrating ownership over time.

3.3 Why oligopoly is common in Australia

- A relatively small population spread over long distances means efficient scale is reached with few firms.
- Distance from world markets and high transport costs limit import competition in some sectors.
- Heavy infrastructure requirements in sectors such as energy, telecommunications and banking create natural barriers.

AUSTRALIAN CONTEXT

Concentrated Australian markets. Groceries are dominated by two chains holding roughly two-thirds of the market between them; banking is dominated by the four major banks; domestic aviation is effectively a duopoly; and fuel retailing and refining are highly concentrated.

Why it matters. The ACCC has run public inquiries into supermarket and fuel pricing precisely because concentration can blunt the competitive pressure that delivers efficient outcomes.

BRETTONOMICS INTERACTIVE

Market Structures — compare perfect competition, monopolistic competition, oligopoly and monopoly side by side

brettonomics.com/market-structures

IN ONE SENTENCE Scale economies and barriers to entry push many Australian markets toward oligopoly, weakening competitive discipline.

SECTION 4 What market failure is

4.1 Defining market failure

- Market failure occurs when the price mechanism produces a sub-optimal allocation of resources — too much or too little of a good is produced relative to the socially desirable quantity.
- It does not mean the market has stopped working; it means the signals the market sends are incomplete or distorted.

4.2 Complete and partial market failure

KEY DEFINITION

Two degrees of failure

Complete market failure. A missing market — the good is not provided at all, because no firm can profitably supply it. Pure public goods such as national defence are the standard example.

Partial market failure. The market exists and supplies the good, but at the wrong quantity or price. Pollution, tobacco and education are examples.

COMMON MISTAKE

Most market failure is partial. Students often label any market failure "complete". Reserve that term for genuinely missing markets. If the good is being traded but in the wrong quantity, it is partial failure.

IN ONE SENTENCE Complete failure means the market does not exist; partial failure means it exists but gets the quantity wrong.

SECTION 5 Externalities

5.1 The four externalities

Term	What it means
Negative externality of production	Production imposes costs on third parties, e.g. factory emissions. Marginal social cost exceeds marginal private cost, so the market over-produces.
Negative externality of consumption	Consumption imposes costs on third parties, e.g. tobacco or alcohol. Marginal social benefit is below marginal private benefit, so the market over-consumes.
Positive externality of production	Production creates benefits for third parties, e.g. firm training or research spillovers. Marginal social cost is below marginal private cost, so the market under-produces.

Term	What it means
Positive externality of consumption	Consumption creates benefits for third parties, e.g. vaccination or education. Marginal social benefit exceeds marginal private benefit, so the market under-consumes.

5.2 Reading the diagram

WORKED EXAMPLE

Drawing a negative externality of production

1. Draw the market. Begin with marginal private cost (supply) and marginal private benefit (demand); their intersection gives the market quantity, Qm.

2. Add the social curve. For a negative production externality, draw marginal social cost above marginal private cost; the vertical gap is the external cost per unit.

3. Find the social optimum. The socially optimal quantity, Qs, sits where marginal social benefit equals marginal social cost.

4. Identify over- or under-production. Here Qm is greater than Qs, so the market over-produces.

5. Shade the welfare loss. The deadweight welfare loss is the triangle between the social cost and social benefit curves, from Qs across to Qm.

6. State the conclusion. Because the price does not include the external cost, resources are over-allocated to this good.

EXAM TIP

Label the gap, not just the curves. Marks come from identifying the divergence between private and social curves, naming Qm and Qs, and shading the welfare loss. A neat diagram with no labelled gap earns very little.

COMMON MISTAKE

Match the externality to the right curve. A production externality shifts the cost side; a consumption externality shifts the benefit side. Moving the wrong curve inverts your whole analysis.

BRETTONOMICS INTERACTIVE

Model all four externalities

Negative Externalities of Production — add an external cost to the supply side and watch marginal social cost separate from marginal private cost
brettonomics.com/negative-externalities-of-production

Negative Externalities of Consumption — model demerit goods such as tobacco and alcohol on the demand side
brettonomics.com/negative-externalities-of-consumption

Positive Externalities of Production — see under-production where social cost lies below private cost
brettonomics.com/positive-externalities-of-production

Positive Externalities of Consumption — see under-consumption of merit goods and the forgone welfare gain
brettonomics.com/positive-externalities-of-consumption

IN ONE SENTENCE Externalities drive a wedge between private and social curves, and the welfare loss triangle measures the cost of that wedge.

SECTION 6 Public goods and the free rider problem

6.1 Rivalry and excludability

	Excludable	Non-excludable
Rival	Private good (a sandwich)	Common resource (ocean fish stocks)
Non-rival	Club good (pay television)	Public good (national defence)

6.2 Why markets under-provide public goods

- Because a public good is non-excludable, a firm cannot withhold it from those who do not pay, so it cannot reliably charge for it.
- Because it is non-rival, the marginal cost of supplying one more user is effectively zero, so efficient pricing would mean charging nothing.
- The result is that private firms have little incentive to supply the good at all — a missing market, and therefore complete market failure.

KEY DEFINITION

Free riding

The free rider problem. Because people cannot be excluded from a public good, each has an incentive to enjoy it without paying, hoping others will fund it. If enough people reason this way, the good is never funded.

The consequence. Governments typically provide public goods directly and fund them through taxation, which removes the option of free riding.

AUSTRALIAN CONTEXT

Australian public goods. National defence, street lighting, the lighthouse network and public broadcasting through the ABC are standard Australian examples of goods funded publicly because markets would under-supply them.

IN ONE SENTENCE Non-excludability creates free riding, which is why pure public goods must usually be publicly funded.

SECTION 7 Other causes of market failure

7.1 Market power

- A firm with market power can restrict output and raise price above marginal cost, producing allocative inefficiency and a deadweight loss.
- Weak competitive pressure can also reduce dynamic efficiency, because a protected firm has less incentive to innovate.

7.2 The tragedy of the commons

- Common resources are rival but non-excludable, so each user captures the full private benefit of use while the cost of depletion is shared by all.
- The rational individual decision is to use more, and the collective result is over-exploitation — overfishing, over-extraction of water, atmospheric pollution.
- The underlying cause is ill-defined property rights: because nobody owns the resource, nobody has an incentive to conserve it.

7.3 Global coordination problems

- Where a resource is genuinely global — the atmosphere, the oceans, near-earth orbit — no single government has jurisdiction.
- Any country that acts alone bears the full cost while the benefit is shared globally, which weakens the incentive to act and makes agreements hard to enforce.
- Climate change and orbital debris are the standard illustrations of this limit on government options.

7.4 Asymmetric information

KEY DEFINITION

Two information problems

Adverse selection. Hidden information before the transaction. In the used car market, sellers know the quality and buyers do not, so buyers discount every car, good cars leave the market and average quality falls — the "lemons" problem.

Moral hazard. Hidden action after the transaction. Once insured, a person may take greater risks because they no longer bear the full cost of a loss.

The distinction. Adverse selection is about what you cannot know beforehand; moral hazard is about behaviour that changes afterwards.

COMMON MISTAKE

Do not use the two terms interchangeably. If the problem exists at the moment of agreeing the deal, it is adverse selection. If it arises from behaviour after the deal is struck, it is moral hazard.

7.5 Immobility of factors of production

- Occupational immobility: workers lack the skills to move between industries, so labour is not reallocated when demand shifts.
- Geographic immobility: housing costs, family ties and relocation expenses prevent workers moving to where jobs are.
- The result is structural unemployment alongside unfilled vacancies — resources are misallocated even though the price mechanism is signalling correctly.

7.6 Boom and bust cycles

- Sharp swings in economic activity can themselves produce socially undesirable outcomes: resources sit idle in downturns and are bid up wastefully in booms.
- Asset price booms can draw investment into speculation rather than productive capacity, and the subsequent bust destroys capital and employment.

AUSTRALIAN CONTEXT

Australian commons problems. The Murray–Darling Basin, where irrigation extraction had to be capped and entitlements traded, and Commonwealth fisheries managed through transferable quotas, are the clearest Australian cases of commons problems addressed through property rights.

IN ONE SENTENCE Most non-externality market failure traces back to one of three things: power, missing property rights, or missing information.

SECTION 8 Extending property rights as a remedy

8.1 How defined property rights resolve inefficiency

- Assigning ownership or a tradable right converts a shared resource into one with an identifiable owner who bears the cost of depletion.
- The owner now has an incentive to conserve the resource, because its future value accrues to them.
- Making the right tradable adds efficiency: the right moves to whoever values it most highly.

AUSTRALIAN CONTEXT

Exclusive economic zones. Australia's 200 nautical mile exclusive economic zone converts open-access ocean into a managed national resource.

Transferable fishing quotas. Individual transferable quotas cap the total catch and allocate shares that can be traded, aligning private incentive with the sustainability of the stock.

Water entitlements. Murray–Darling water entitlements turned an open-access resource into a defined, tradable right.

EXAM TIP

Name the mechanism, not just the policy. Explain why the property right works — it internalises the cost of depletion by giving one party both the benefit and the cost of the decision. That causal step is where the analysis marks sit.

IN ONE SENTENCE Property rights fix commons problems by making someone bear the cost of over-use.

SECTION 9 Methods of market modification

9.1 Indirect taxation and Pigouvian taxes

- An indirect tax raises the price of a good, reducing the quantity demanded.
- A Pigouvian tax is set equal to the marginal external cost at the socially optimal output, so the private cost curve shifts up to meet the social cost curve.
- Once the external cost is internalised, the market quantity falls to the socially optimal quantity and the welfare loss is eliminated.

WORKED EXAMPLE

How a Pigouvian tax corrects a negative externality

The principle. Set the tax per unit equal to the external cost per unit at the social optimum.

The effect on the diagram. Marginal private cost shifts upward until it coincides with marginal social cost.

The outcome. The new market equilibrium occurs at Qs, the socially optimal quantity, and the deadweight loss triangle disappears.

The practical difficulty. Governments must estimate the external cost accurately; too small a tax leaves over-production, too large a tax creates under-production.

9.2 Subsidies

- A subsidy lowers the cost of production or consumption, increasing the quantity supplied or consumed.
- Used to correct positive externalities and encourage merit goods such as vaccination, education and renewable energy.
- The cost falls on taxpayers, and poorly targeted subsidies can support activity that would have occurred anyway.

9.3 Price floors and ceilings

- A price ceiling set below equilibrium creates a shortage, and may lead to queuing, rationing or black markets.
- A price floor set above equilibrium creates a surplus, as with minimum wages in the labour market.
- Both change the distribution of welfare as well as the quantity traded, so evaluate who gains and who loses.

BRETTONOMICS INTERACTIVE

Model the price controls

Price Ceilings — set a maximum price below equilibrium and read off the resulting shortage
brettonomics.com/price-ceilings

Price Floors — set a minimum price above equilibrium and read off the resulting surplus
brettonomics.com/price-floors

9.4 Regulation and direct provision

- Regulation sets rules: emissions standards, licensing, safety requirements, advertising restrictions.
- Direct state provision supplies the good itself, which is the usual response to a missing market for public goods.

9.5 Tradable permits

- The government caps the total quantity of an activity, issues permits to that level, and allows firms to trade them.
- Firms that can abate cheaply do so and sell their permits; firms facing high abatement costs buy them.
- The environmental target is met at the lowest total cost, which is the central efficiency argument for cap and trade.

9.6 Suasion

- Governments use information campaigns, labelling and moral persuasion to change behaviour without compulsion.
- Low cost and politically easy, but effects are usually modest and hard to measure.

IN ONE SENTENCE Every instrument works by changing incentives — say which incentive changes, and for whom.

SECTION 10 Evaluating interventions

10.1 Criteria for judgement

- **Efficiency:** does the intervention move the market toward the socially optimal quantity?
- **Equity:** who bears the cost, and is the burden regressive?
- **Practicality:** can it be administered and enforced at reasonable cost?
- **Dynamic effects:** does it preserve or strengthen incentives to innovate?

10.2 Intended and unintended consequences

- A tax on a demerit good may reduce consumption as intended, while also falling hardest on low-income households.
- A price ceiling intended to improve affordability can reduce supply and create shortages or black markets.
- A subsidy may encourage activity that would have happened anyway, wasting public funds.

10.3 Government failure

- Government failure occurs when intervention produces an outcome worse than the market failure it was meant to correct.
- Causes include poor information, administrative cost, regulatory capture, and political incentives that favour short-term outcomes.

> EXAM TIP
>
> **Always weigh both sides.** A strong evaluation does not stop at "the market failed, so government should intervene". Compare the size of the market failure against the cost and risk of the remedy, then reach a clear decision.

> IN ONE SENTENCE Intervention is justified only when the gain from correcting the failure exceeds the cost and risk of the correction.

ASSESSMENT Multiple choice questions

20 questions covering Unit 2 Topic 1. Answers and explanations follow the question set.

Question 1

Allocative efficiency is achieved when:

A. Output is produced at the lowest possible average cost

B. Firms invest heavily in research and development over time

C. Resources are used to produce the combination of goods society most values, where marginal social benefit equals marginal social cost

D. Every firm in the market earns an equal share of profit

Question 2

A firm producing on its production possibility curve at the lowest possible average cost has achieved:

A. Productive efficiency

B. Allocative efficiency

C. Dynamic efficiency

D. A socially optimal outcome

Question 3

Dynamic efficiency differs from the other two efficiencies because it:

A. Applies only to markets in perfect competition

B. Is achieved whenever price equals marginal cost

C. Measures the fairness of the income distribution

D. Concerns performance over time through investment and innovation

Question 4

A market outcome and a socially desirable outcome differ whenever:

A. The market is in equilibrium

B. An externality means private costs or benefits diverge from social costs or benefits

C. Firms earn normal profits in the long run

D. Consumers have perfect information about prices

Question 5

Which combination of characteristics defines a public good?

A. Non-rival and non-excludable

B. Rival and excludable

C. Rival and non-excludable

D. Non-rival and excludable

Question 6

The free rider problem arises because:

A. The good is too expensive for most consumers to afford

B. Government provision is always cheaper than private provision

C. Consumers lack information about the good's quality

D. People cannot be excluded from consuming the good, so each has an incentive to benefit without paying

Question 7

Complete market failure is best illustrated by:

A. A factory emitting pollution while still selling its output

B. A pure public good such as national defence, which the private market does not supply at all

C. Tobacco being consumed in greater quantities than is socially desirable

D. A monopoly charging a price above marginal cost

Question 8

A factory discharges waste into a river. On a diagram this is shown as:

A. Marginal social benefit lying above marginal private benefit, with the market under-producing

B. Marginal private cost lying above marginal social cost, with the market under-producing

C. Marginal social cost lying above marginal private cost, with the market over-producing

D. A parallel shift of the demand curve to the right

Question 9

Vaccination generates benefits for people other than the person vaccinated. The market will therefore:

A. Under-consume the good, because marginal social benefit exceeds marginal private benefit

B. Over-consume the good, because marginal private benefit exceeds marginal social benefit

C. Produce the socially optimal quantity without intervention

D. Fail completely, so no vaccination will occur

Question 10

The deadweight welfare loss from a negative externality of production is measured by:

A. The total revenue earned by producers at the market quantity

B. The area under the marginal private cost curve up to the market quantity

C. The vertical distance between the two cost curves at the market quantity

D. The triangle between the marginal social cost and marginal social benefit curves, from the socially optimal quantity to the market quantity

Question 11

The tragedy of the commons occurs because common resources are:

A. Non-rival but excludable, so firms can charge for access

B. Rival but non-excludable, so individual users capture the benefit while the cost of depletion is shared

C. Owned by government, which manages them inefficiently

D. Too abundant for scarcity to apply

Question 12

A buyer cannot tell a good used car from a bad one, while the seller can. This is an example of:

A. Moral hazard
B. A positive externality
C. Adverse selection
D. Productive inefficiency

Question 13

A driver takes greater risks after taking out comprehensive insurance. This is:

A. Adverse selection
B. The free rider problem
C. A negative externality of production
D. Moral hazard

Question 14

Workers made redundant in manufacturing lack the skills to take up vacancies in health care. This illustrates:

A. Occupational immobility of labour leading to a misallocation of resources
B. Geographic immobility of capital
C. A positive externality of production
D. Complete market failure in the labour market

Question 15

A Pigouvian tax corrects a negative externality by:

A. Capping the quantity firms are permitted to produce
B. Setting the tax equal to the marginal external cost, shifting private cost up to meet social cost
C. Paying producers to reduce their output
D. Setting a maximum price below the market equilibrium

Question 16

A price ceiling set below the market equilibrium will:

A. Create a surplus, because quantity supplied exceeds quantity demanded
B. Leave the quantity traded unchanged
C. Create a shortage, because quantity demanded exceeds quantity supplied
D. Raise producer surplus and lower consumer surplus

Question 17

The main efficiency argument for tradable permits over direct regulation is that:

A. The environmental target is met at the lowest total abatement cost, because low-cost abaters abate and sell permits
B. They raise more revenue for government than a tax would
C. They guarantee that no firm will ever pollute
D. They remove the need to set a quantity target

Question 18

Which best explains why oligopoly is common in many Australian industries?

A. Australian consumers prefer to buy from large firms

B. Government regulation requires markets to have exactly four firms

C. Perfect competition is illegal under Australian law

D. Economies of scale and barriers to entry mean efficient scale is reached with only a few firms in a relatively small market

Question 19

Extending property rights, such as through transferable fishing quotas, improves efficiency because it:

A. Increases the total quantity of the resource available

B. Removes the need for any government involvement

C. Gives an identifiable owner both the benefit and the cost of the resource decision, creating an incentive to conserve

D. Guarantees that the resource will never be traded

Question 20

Government failure occurs when:

A. A government runs a budget deficit in a downturn

B. Intervention produces an outcome worse than the market failure it was intended to correct

C. A market fails to reach allocative efficiency

D. A tax raises less revenue than forecast

ASSESSMENT

Marking guide

Answer key

Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
C	A	D	B	A	D	B	C	A	D
Q11	**Q12**	**Q13**	**Q14**	**Q15**	**Q16**	**Q17**	**Q18**	**Q19**	**Q20**
B	C	D	A	B	C	A	D	C	B

Explanations

Q1 C Allocative efficiency concerns what is produced. Lowest-cost production is productive efficiency, and innovation over time is dynamic efficiency.

Q2 A Productive efficiency is about producing at least cost. It says nothing about whether the right goods are being produced.

Q3 D Dynamic efficiency is the time dimension of efficiency. Fairness is an equity question, not an efficiency one.

Q4 B The divergence between private and social curves is precisely what makes the market result sub-optimal.

Q5 A Rival and excludable is a private good; rival and non-excludable is a common resource; non-rival and excludable is a club good.

Q6 D Non-excludability is the source of free riding. If enough consumers free ride, the good is never funded privately.

Q7 B Complete failure means a missing market. The other options are partial failure — the market exists but the quantity is wrong.

Q8 C A negative production externality adds an external cost, so the social cost curve sits above the private cost curve and Qm exceeds Qs.

Q9 A This is a positive externality of consumption — a classic merit good, under-consumed by the market.

Q10 D The welfare loss is the accumulated excess of social cost over social benefit across the units that should not have been produced.

Q11 B The rival/non-excludable combination produces private incentives to over-use, because the depletion cost falls on everyone.

Q12 C Hidden information before the transaction is adverse selection — the "lemons" problem. Moral hazard involves behaviour after the agreement.

Q13 D The behaviour changes after the contract is agreed because the driver no longer bears the full cost of a loss.

Q14 A Factor immobility prevents resources being reallocated even when price signals are working correctly.

Q15 **B** The tax internalises the external cost, so the market equilibrium moves to the socially optimal quantity.

Q16 **C** A binding ceiling holds price below equilibrium, so demand exceeds supply and rationing or black markets can follow.

Q17 **A** Trading allocates abatement to whoever can do it most cheaply, achieving the cap at least cost.

Q18 **D** Scale economies, high capital requirements and a modest population combine to limit the number of viable firms.

Q19 **C** Defining the right internalises the depletion cost; making it tradable moves the right to whoever values it most.

Q20 **B** Government failure is about the intervention itself making matters worse, through poor information, administrative cost or distorted political incentives.