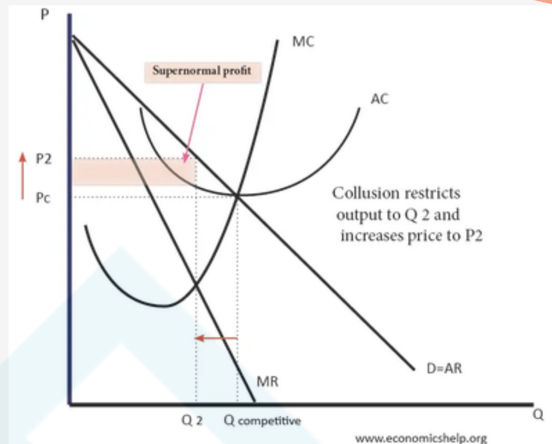
Market failure

Market failure is the misallocation of resources

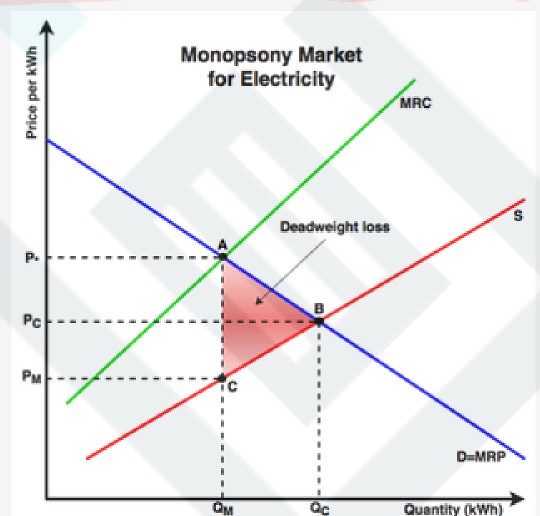
COLLUSIVE BEHAVOUR IN OLIGOPOLIES

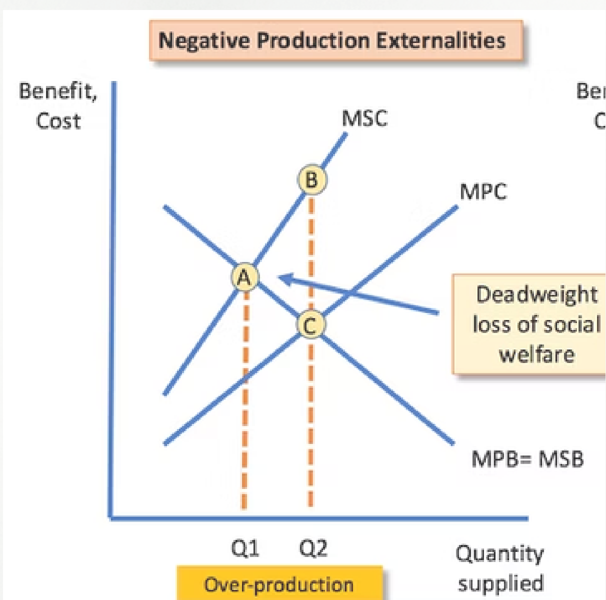
Collusion occurs when firms agree to act as one firm in order to benefit. This could be to exploit consumers by charging higher prices to achieve profit maximisation.

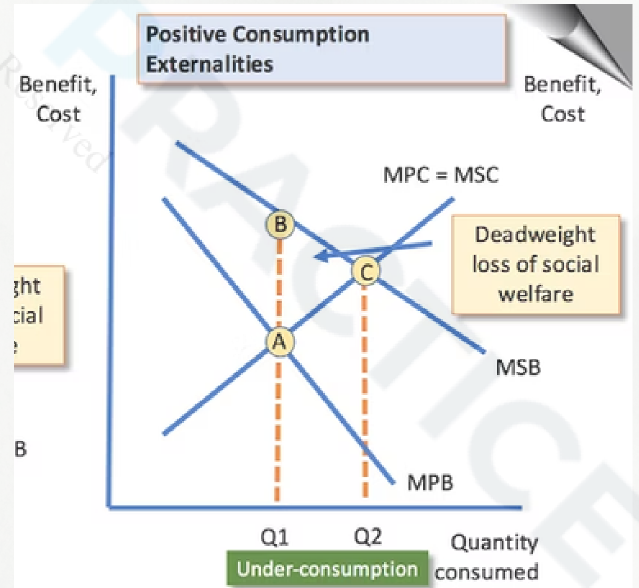


MONOPSONY

A monopsony occurs when there is only one buyer in the market. A monopolist can set price for its buyers, and can set the price it pays to its suppliers. Monopsony power indicates that firms in the market face an upward sloping curve.







Implications of market failure

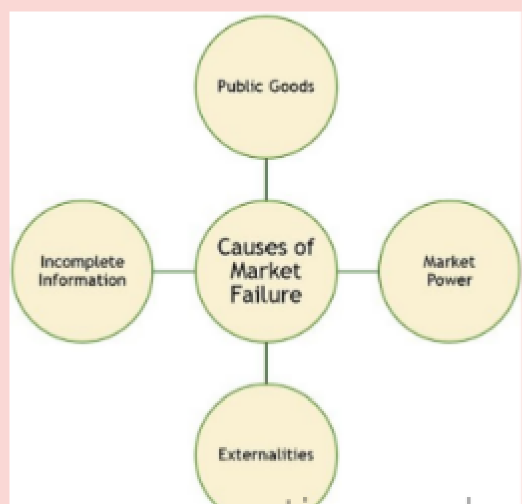
Market failure will impact consumers as output will be lower but with higher prices.
Therefore, firms will benefit from higher profits but consumers will lose out from higher prices.
There is allocative and productive inefficiency.
Government failure can be used to correct market failure, however it can be costly and will lead to government failure.

MERIT AND DEMERIT GOODS

Merit goods are goods that are regarded by society as deserving, and are underprovided. For example, streetlamps.
Merit goods cause a positive externality.
Demerit goods are overprovided and are deemed as not beneficial for society. For example, junk food.
Demerit goods cause a negative externality.

Factor immobility

This occurs because it is difficult for factors of production to be put to alternative uses. This can result in a misallocation of resources, leading to market failure. Factor immobility can occur for land, labour, and capital.



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