

Chapter 2 Unit 3:

GOVERNMENT INTERVENTIONS TO CORRECT MARKET FAILURE

Questions

1. 'The existence of a free market does not altogether eliminate the need for government intervention' Explain
2. Do you consider government intervention as a necessity for the efficient functioning of markets?
3. What is the rationale for government intervention in markets?
4. Enumerate a few legislative measures undertaken by Government of India to promote competition?
5. Examine the role of liberalization policies of the government in reducing or eliminating market power.
6. Examine the justification of government measures to support monopoly
7. On what grounds do you justify governments supporting natural monopolies?
8. How do governments restrict market power of natural monopolies?
9. Distinguish between direct controls and market-based policies of government for solving the problem of negative externalities
10. Mention three regulatory mechanisms resorted by governments to solve the problem of pollution
11. How do emissions standards help reduce pollution?
12. Differentiate between emission standards and emission fees?
13. How do market- based policies for preventing negative externalities create incentive for firms?
14. What do you understand by internalizing externality? What is its effect on firms which produce negative externality?
15. Examine the concept of Pigovian Taxes?
16. How do pollution taxes work to make the polluter pay?

17. What is the effect of pollution taxes? How is it achieved?
18. 'Pollution taxes ensure optimal quantity of output' explain the mechanism of pollution taxes
19. What arguments do you put forward against the viability of pollution taxes?
20. Do you think pollution taxes are difficult to administer. Why?
21. What are the limitations in administering pollution taxes?
22. What is the effect of pollution tax on a commodity which has inelastic demand?
23. Mention the demerits of pollution tax as a measure to combat negative externalities?
24. Explain the concept of 'tradable emission permits'
25. What is meant by 'cap and trade' in the context of externalities?
26. Why do you consider cap and trade as a market based mechanism to solve the problem of externality?
27. Explain the incentive system designed under cap and trade to reduce pollution?
28. How do tradable permits benefit the less polluting firms?
29. How does 'cap and trade' help in reducing pollution to specified levels?
30. How do tradable permits enable internalization of externalities?
31. Distinguish between pollution taxes and pollution permits?
32. 'Cap and trade' provides strong incentives for innovation to combat pollution. Elucidate
33. How do pollution permits provide incentives to reduce pollution?
34. 'Pollution permits translate external cost into private cost' Explain'
35. Do social marginal benefit and private marginal benefit differ when there is a consumption externality? How?
36. How does social marginal benefit differ from private marginal benefit when there is a positive consumption externality? Illustrate your answer

37. How does social marginal benefit differ from private marginal benefit when there is a consumption externality? Illustrate your answer
38. Why do you say there is a market failure when there is a positive consumption externality?
39. What is meant by corrective subsidy?
40. Do you think a competitive market in education with no government interference would be inefficient? Why? Illustrate your answer
41. 'Market will produce less than optimal output of education' Explain
42. Explain the effect of government subsidy on a product with positive externalities
43. Present your arguments in support of government production of goods and services which have substantial positive externalities?
44. How do governments intervene to solve the problem of market failure associated with positive externalities?
45. Explain the features of merit goods.
46. What is the market outcome for merit goods?
47. Explain the rationale for government intervention in the case of merit goods?
48. How do government legislations increase consumption of merit goods?
49. Explain the outcome of free provision of merit goods by government
50. What is meant by demerit good?
51. What is the market outcome for demerit goods? Illustrate your answer
52. 'All goods with negative externalities are not essentially demerit goods' Explain
53. How do governments correct market failure resulting from demerit goods?
54. Explain the effect of price intervention for demerit goods
55. Explain the possible effect of high taxes on a demerit good with inelastic demand

56. Explain the possible effect of high taxes on a demerit good with elastic demand
57. What arguments do you propose to support government provision of public goods?
58. How do governments provide excludable public goods?
59. What is meant by 'price intervention' Give a few examples
60. What is the market outcome for non market pricing ?
61. Explain the market outcome for price ceiling?
62. Explain the market outcome for minimum support price ?
63. Explain a few measures for government intervention for correcting information failure
64. Explain the rationale for government intervention for equitable distribution
65. Mention four government intervention policies for bringing about redistribution of income
66. Do you think government intervention is always beneficial? Substantiate your arguments