

End-of-chapter Questions

Chapter 2: Market Failures

1.
 - a. What are the market assumptions that are required for a well-functioning market economy?
 - b. What are the technical assumptions that are required for a well-functioning market economy?
2.
 - a. What does the market economy achieve if all the market and technical assumptions of a well-functioning market economy hold?
 - b. Why are these achievements important given the goals or objectives of mainstream public sector theory?
3. If all the market and technical assumptions for a well-functioning market economy hold, is there anything for the government to do? If no, why not? If yes, what must the government do and why?
4. Name three allocation or efficiency problems that afflict market economies. In addition, describe the source of the problems and why government intervention is usually required to restore efficiency when these problems arise.
5. Compare and contrast the competitive market's ability to allocate private and public (nonexclusive) goods efficiently.
6. Discuss some of the difficulties that private information poses for a market economy and why these difficulties often require government intervention in order to be overcome.
7. Why is there both private and public (social) insurance?
8. What role do taxes play in the pursuit of efficiency and equity?
9.
 - a. What is a federal government?
 - b. What are some of the economic problems posed by a federal government that would be absent if there were a single government within a nation?