Market failure resarch

Literature, Russian Literature

Market Failure Scarce resources in a free a market are allocated via the price mechanism where the needs or preferences and spending decisions of customers and supply decisions of producers come together to determine acceptable prices. High demand of goods or services leads to increase supply of the products to meet rising demands. High prices motivate producers to produce more while it kills the morale of consumers from purchasing the products. Pricing system sometimes does not consider income inequality in that price of certain goods and services are always high making it hard for low-income earners to access them. It is the duty of the government to intervene and make sure that prices set are not discriminative.

Government intervention in the price mechanism is largely based on aims of wanting to alter or change the allocation of resources and attain what they think to be an improvement social and economic welfare. Therefore, government intervenes in the economy with the aim of influencing the allocation of scarce resources on the market among competing consumers. The government formulates policy intervention with the aims to improve the performance of the economy, attain more equitable distribution of income, and correct market failure.

There are various alternatives in which the government can use to intervene in market. For instance, government legislation and regulation whereby it passes laws that prohibit the sale of certain goods such as cigarettes to people under the age of eighteen. Furthermore, competition laws works against cartels that are used to price fixing. In addition, it can use fiscal policy intervention to alter the level of demand for distinct products in the market. Government intervention has always created inequity in society in that certain groups gain more than the others do. For instance, it is equitable for the government to provide educational maintenance allowances for 16-18 children from low-income households for them to stay in school after GCSE. It is vital to note that government intervention in the market will never be neutral. For instance, financial support offered by the State to specific producers rather than others creates unequal society in that there are winners and losers.

Works Cited

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