Unit 7: Market Failure: is there any extra credit?

Content Area: **Social Studies**
Course(s): **AP Micro Economics**
Time Period: **March**
Length: **4 weeks**
Status: **Published**

Transfer

Enduring Understandings

Externalities are unintended consequences that arise from producing goods and services. The government uses taxes, subsidies and other incentives to correct for them.

Positive externalities often drive up the price for goods because not only are the people buying the good benefiting but others who do not pay also benefit.

The goal of correcting market failures is to either encourage a firm to produce more of a good that everyone benefits from or to discourage a firm from producing a good that has negative consequences.

The Green Movement is looking to make everything more environmentally friendly. The debate is how the cost should be split between consumers and producers.

Essential Questions

What can the government do to help encourage more production when there is a positive externality and what are the political ramifications of these decisions?

What are different ways that individuals, governments and firms can correct for negative externalities?

How can supply and demand analysis help to determine how much of a tax or subsidy should given to a firm to help correct for externalities?

What are the economic and political ramifications of the Green Movement and how is it both helping and hurting firms?

How do firms decide how much cost of externalities they split with the consumers?

Skills

Graph and analyze how externalities impact buyers and sellers..

Analyze how firms react to externalities and how it influences their decision making processes.

Evaluate current economic climate through Economic Literacy Projects (ELP) where students choose a current event article and write up an analysis of it using economic standards.

Assess the ways that firms can impact and change externalities in economies.

Assess the ways both the public and government can impact and change externalities in economies.

Vocab: Private Cost, Social Cost, Externality, Optimal Quantity of pollution, Private Property Rights, Common Property, Transaction Costs, Recycling

Standards

6.5.8 B.1. Discuss how meeting the needs and wants of a growing world population impacts the environment and economic growth.

6.5.8 B.3. Discuss how societies have been affected by industrialization and by different political and economic philosophies.

6.5.8 B. 4. Describe how inventions and innovations have improved standards of living over the course of history.

6.5.8 B. 7. Discuss the need for ethical behavior in economic decisions and financial transactions.

6.5.12 A. 5. Discuss how a market economy experiences periodic business cycles of prosperity and recession and that the federal government can adjust taxes, interest rates, spending, and other policies to help restore economic health.

6.5.12 A. 9. Compare and contrast forms of insurance that protect individuals from loss or damage (e.g., life, property, health, disability, personal liability, bank deposits).

6.5.12 B. 1. Compare and contrast the roles of the United States government and the private sector in the United States economy (e.g., Federal Reserve System, United States Mint, Stock Exchange).

6.5.12 B. 6. Analyze the connections and potential effects of the widening gap between the rich and the poor in the United States, the decline in labor union membership since 1950, rapidly advancing technology, globalization, and problems of public schools.