Market failure

1 Market failure

Market failure occurs when the price does not send the right signals to market participants. It leads to losses of efficiency and welfare.

2 Cases

Case	Why market failure?	Links (click)
2.1 Monopolies, oligopolies etc.	Price > marginal cost; the suppliers reduce the quantity and charge a higher price.	• Market structure (demand)
2.2 Externalities	The actual quantity differs from the socially optimal quantity.	• Externalities
2.3 Public goods	The price cannot play a quantity-limiting role (e.g. free rider problem).	• Goods (private vs public)
2.4 Prisoner's dilemma	Information deficits lead to less than optimal results.	• Prisoner's dilemma
2.5 Asymmetric information	One-sided information disadvantages market participants.	• 'Information asymmetry' in Wikipedia