

UNIT IV: EFFICIENCY, EQUITY AND THE ROLE OF GOVERNMENT

IV. Efficiency, equity and the role of government (12-18%)

- A. Externalities
 - 1. Marginal social benefit and marginal social cost
 - 2. Positive externalities
 - 3. Negative externalities
 - 4. Remedies
- B. Public goods
 - 1. Public versus private goods
 - 2. Provision of public goods
- C. Public policy to promote competition
 - 1. Antitrust policy
 - 2. Regulation
- D. Income Distribution
 - 1. Equity
 - 2. Sources of income inequality

Primary and Supporting Concepts:

Module (Krugman)	Chapter (McConnell)	Concepts
74, 75	15, 16	Externalities <ul style="list-style-type: none">• Positive and Negative Externalities• Social Costs and Benefits• Subsidies and Taxes
76	16	Public Good and Common Resources <ul style="list-style-type: none">• Classifying Goods and Resources• Free-Rider Problem
77	18	Regulation and Antitrust <ul style="list-style-type: none">• Regulation• Antitrust laws
78	20	Inequality and Redistribution of Wealth <ul style="list-style-type: none">• Economic Inequality and the Lorenz Curve• How Inequality arises

Topic 1:

Market Failures and Externalities

Read Modules 74, 75 & 76

Objectives

1. Define and describe the effects of negative and positive externalities.
2. Identify methods to solve the problem of externalities, including private and government solutions.
1. Use supply and demand analysis to show effects of externalities and to solve externality problems.
2. Define and give examples of public goods
3. Define and give examples of goods that are excludable and/or rival
4. Identify and explain solutions to issues of public goods.

Vocabulary

Public Good
Cost-benefit Analysis
Negative Externality
Coase Theorem
Tragedy of the Commons

Free-rider Problem
Externalities
Positive Externality
Subsidies

Key Conceptual Questions

1. What is a negative externality?
 2. Is economic growth harmful to the environment?
 3. How do private ownership and competitive markets affect the quality of the environment?
 4. Can government regulation help protect the quality of the environment?
 5. What is the free-rider problem? What kinds of goods are likely to be susceptible to this problem?
-

Topic 2

Regulation and Anti-trust

Read Krugman Module 77

Objectives

1. Explain the effects of regulation of natural monopoly and oligopoly
2. Describe U.S. antitrust law and explain antitrust policy debates

Vocabulary

Regulation	Deregulation
Antitrust	Price-Fixing
Merger	

Key Conceptual Questions

1. What are some means of regulating industry?
 2. How has the structure of the economy changed in the last decade?
 3. What are the objectives of regulation?
 4. Is government regulation effective?
-

Topic 3

Inequality and Redistribution of Wealth

Read Krugman Module 78

Review Tax Incidence

Objectives

1. List factors that cause differences in household income
2. Draw and describe the information provided by a Lorenz curve
3. Define the official definition of poverty
4. State the arguments for and against redistribution of income
5. Summarize theories underlying arguments for redistribution of income
6. Define the major government redistribution programs and the groups to which they are to reach

Vocabulary

Lorenz Curve	Poverty Rate
Social Security	Medicare
Unemployment Compensation	Entitlement Programs
Public Assistance Programs	

Key Conceptual Questions

1. What is a Lorenz curve, and what does it measure?
2. What has happened to the distribution of income in the United States?
3. What is the difference between income and wealth?
4. Why do people earn different incomes?