

6.1 Socially Efficient and Inefficient Market Outcomes

Name: _____ Class: _____ Date: _____

Total: 9 marks

KEY WORDS market failure 市场失灵 • socially efficient 社会效率 • public good 公共物品

Objective

Build the skills to answer exam questions on **socially efficient and inefficient market outcomes**.

You must be able to:

- explain that a market is **socially efficient** 社会效率 when **marginal social benefit** equals **marginal social cost**
- relate the efficient outcome to the maximization of **total surplus**
- explain how **market power** leads to underproduction and a **deadweight loss**
- define **market failure** 市场失灵

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Social efficiency

A market is socially efficient where **marginal social benefit (MSB) = marginal social cost (MSC)** — this maximizes **total surplus**.

■ Market power

A firm with market power **underproduces** (produces where $P > MC$), so some mutually beneficial units are lost — a **deadweight loss**.

■ Market failure

Any outcome in which a market **fails to allocate resources efficiently** (from market power, externalities, public goods, and so on).

2 Practice

2.1 State the condition for a socially efficient market outcome. [1]

2.2 Define market failure. [1]

2.3 Explain how market power leads to a deadweight loss. [2]

3 Exam-style questions

3.1 A market is socially efficient where [1]

- **A** $MSB > MSC$
 - **B** $MSB = MSC$
 - **C** $MSB < MSC$
 - **D** the price is zero
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3.2 Market failure is when a market [1]

- **A** maximizes total surplus
 - **B** fails to allocate resources efficiently
 - **C** is perfectly competitive
 - **D** has no firms
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3.3 A monopoly restricts output below the efficient level.

(a) State the effect on total surplus. [1]

(b) Name the loss this creates. [1]

(c) State whether this is a market failure.

[1]

Solutions

2.1 where marginal social benefit equals marginal social cost.

2.2 an outcome in which the market fails to allocate resources efficiently.

2.3 market power leads to producing where $P > MC$ (underproduction), so some beneficial trades are lost — a deadweight loss.

3.1 B.

3.2 B.

3.3 (a) it falls. (b) a deadweight loss. (c) yes.