

**What is the market failure?**

The over consumption of sugar / unhealthy / fatty food that causes obesity or other health problems.

The under consumption of healthy food or exercise.

**What are externalities?**

Negative externalities are the unintended negative consequences on others of the consumption or production of a good or service.

Positive externalities are the unintended positive consequences or side effects on others of the consumption or production of a good or service.

Consumption of sugar or fast food / unhealthy food has negative externalities of consumption.

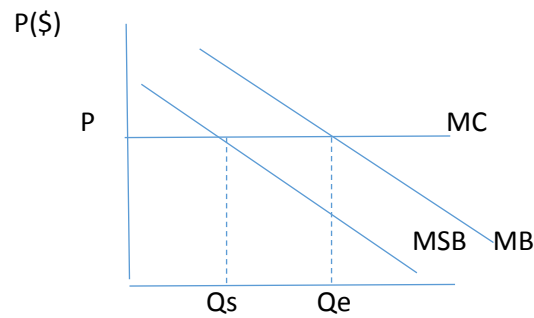
The consumption of these foods cause unintended negative side effects such as obesity and dental health problems.

The consumption of excess sugar / unhealthy food causes obesity which causes the health problems of..... (e.g. heart disease, type 2 diabetes) this causes increase in health care cost which are..... loss in productivity of workers etc.

“Researchers from The University of Auckland have announced the results of a recent study showing that overweight and obesity in New Zealand costs the country between **NZ\$722 million** and **NZ\$849 million a year** in health care costs and lost productivity” .Dec 11, 2012

Good with Negative externalities of consumption.

**Individual Consumption of Sugar.**



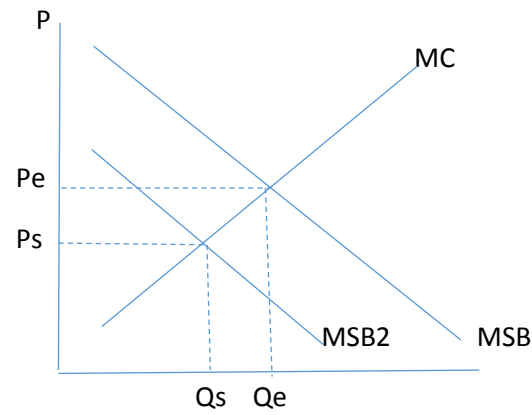
The diagram shows that the individual will consume more of the good than society would like. The price of the good is the MC to the individual consumer.

At this price the individual consumer will consume Qe of sugar, but society would like less of it consumed because it has negative externalities of consumption such as .....????? (increased health care costs).

MSB is less than MB because of the negative externalities of consumption. Society would like less of the good consumed.

The good is under-priced and over consumed, because the market price does not take into account the negative externalities of the consumption of sugar such as.....

**Market Consumption For Sugar**

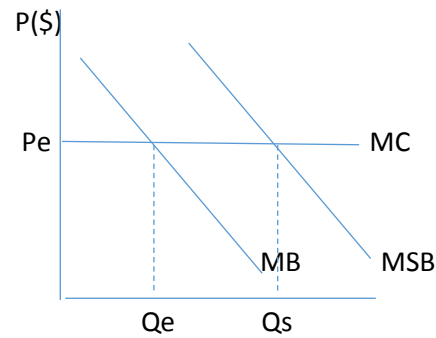


+ explanation of graph.

**Goods with positive externalities**

Exercise, Healthy Food (fruit, vegetables etc)

**Individual Consumption of Exercise**



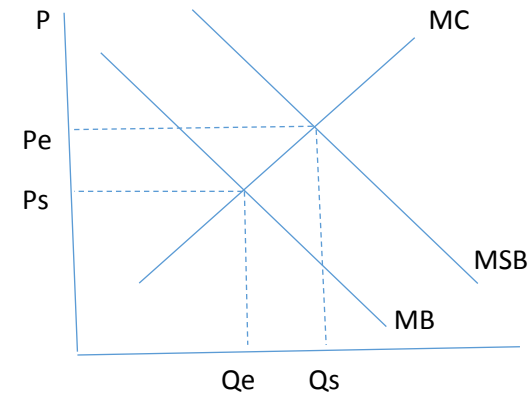
The diagram shows that the individual will consume less of the good than society would like. The price of the good is the MC to the individual consumer.

At this price the individual consumer will consume Qe of exercise, but society would like more of it consumed because it has positive externalities of consumption such as .....????? (decreased health care costs).

MSB is more than MB because of the positive externalities of consumption. Society would like more of the good consumed.

The good is over-priced and under consumed, because the market price does not take into account the positive externalities of the consumption of exercise such as.....

**Market Consumption of exercise.**



+ explanation.

Need to use examples and quotes to justify why MSB or MSC is different to MB or MC.

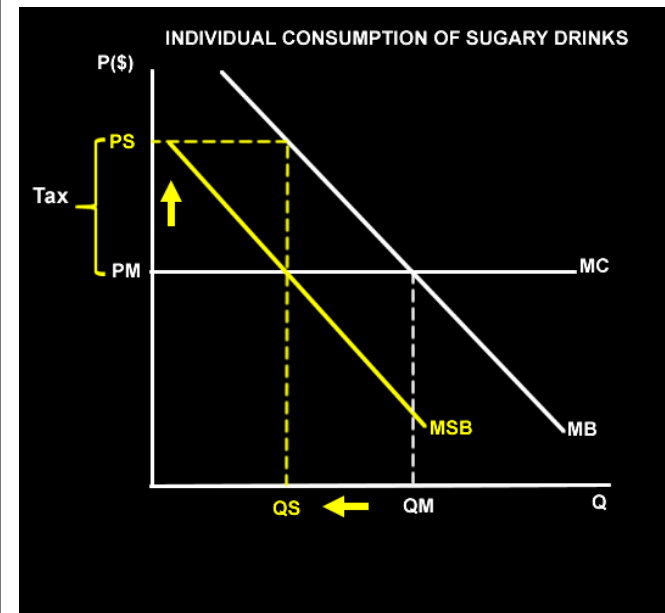
**POLICIES TO CORRECT THE MARKET FAILURE**

e.g. A tax on sugary drinks.

The government could place an indirect tax on sugary drinks or unhealthy / fatty / junk food.

An indirect tax you increase the price of the product causing a decrease in the quantity demanded.

BUT – if demand is inelastic then an indirect tax will not have much impact.



An indirect tax will decrease the quantity demanded for sugary drinks.

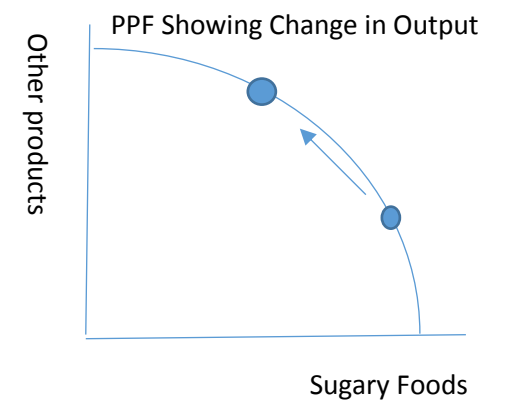
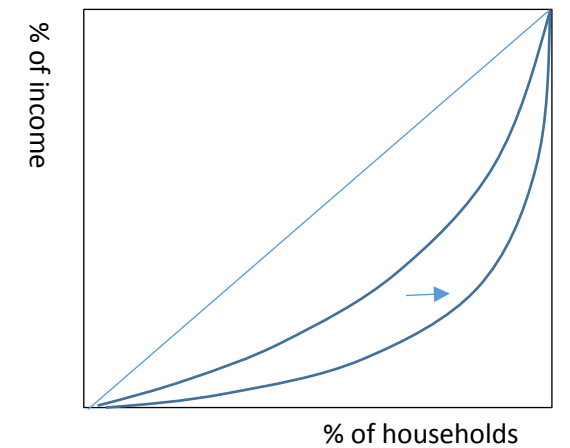
The tax will take into account the negative externalities of the sugary drinks such as..... (type 2 diabetes, tooth decay etc)

The price will increase to the Socially desirable price of Ps and the quantity consumed will decrease to the socially desirable price of Qs.

Implications:

- Reduction in consumption of sugary food.
- Tax revenue could help to pay for health care costs.
- Tax revenue could be used to subsidise healthy food.
- Tax may impact on low income people more so increases inequality / inequity.
- May not reduce consumption by much due to sugar foods having inelastic demand.
- Loss in efficiency in resource use – deadweight loss caused by the tax.

Use evidence and quotes from articles to help justify this.



Also do the same for a subsidy for healthy food / exercise and look at the impacts on society of these interventions. How fair / equitable are these interventions?