Market Failures

Capitalism

University of Virginia

Matthias Brinkmann
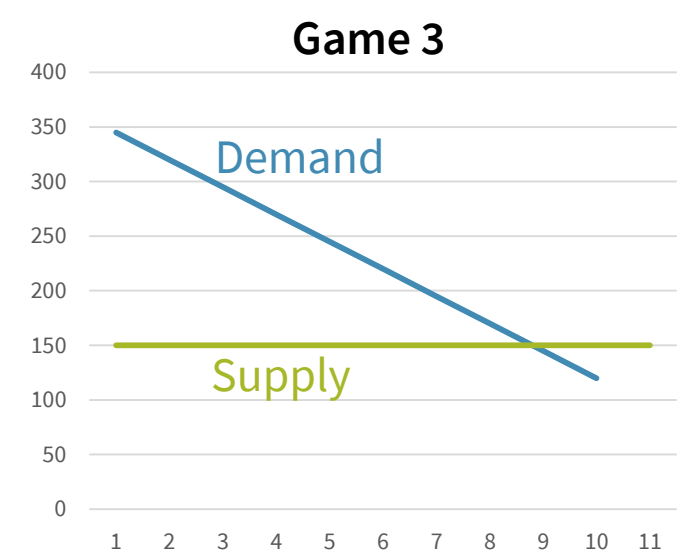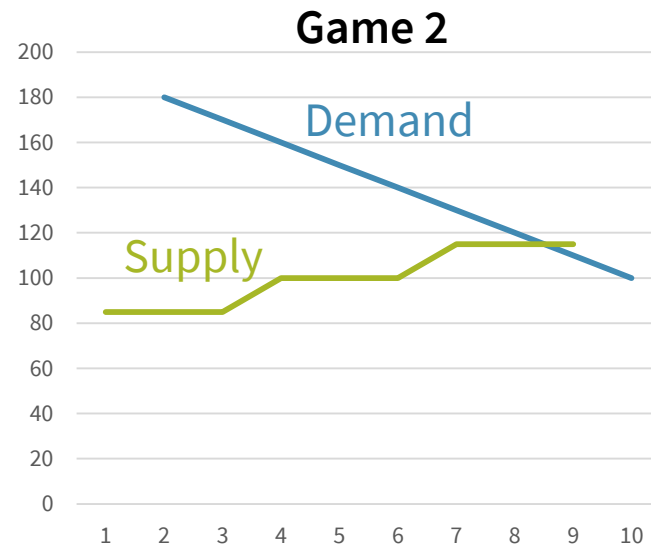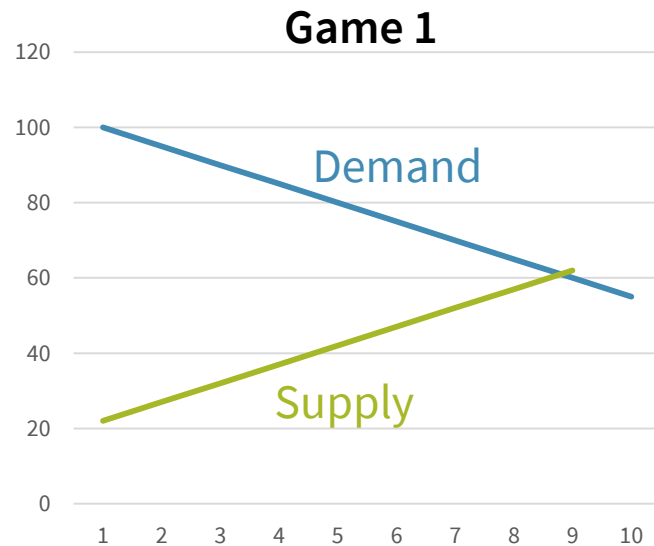
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1. **Game Results**
2. Discussion

Games 1 to 3

	Game 1	Game 2	Game 3
Avg. consumer valuation	77.5	145	232.5
Avg. producer cost	42	100	150
Trade volume under perfect competition	8	8	8
Price under perfect competition	57 to 65	115 to 120	150 to 170

Game 1

Game 2

Game 3

Actually Observed Values

	1a	1b	2a	2b	3a	3b
exp	57 to 65		115 to 120		150 to 170	
avg	53.7	53.9	127.4	124.9	200.0	182.9
sd	10.7	8.9	10.4	2.5	19.8	9.9
#	9	9	9	7	7	7
1	37.5	50	115	125	195	190
2	60	50	148	125	195	200
3	60	43	120	125	195	190
4	40	58	140	130	225	180
5	49	49	121	123	215	175
6	50	48	135	121	215	175
7	55	60	125	125	160	170
8	57	52.5	120			
9	75	75	123			

Monopoly ideal price:
Sell 4 items slightly below 270,
for a total profit of around 480.

Actual monopoly profits: 350
(game 3a) and 230 (game 3b)

Game 4: Incomplete Markets

- Valuation of consumer = 4 * valuation of producer; all trades are profitable

|	Producer	Consumer	Actual Price	Producer % of Gain
Shwolbob	1700	6800	3500	35%
Shwurb	3000	12000	3500	5%
Shwam	2100	8400	3100	16%
Shwitz	600	2400	605	0.3%
Shwhendolim	1950	7800	4875	50%
Shwano	375	1500	415 / 425	3.6% / 4.4%
Shwirg	14000	56000	n/a	
Shwaumus	6250	25000	15000	46.7%
Shway	25	100	63 / 72	51% / 62.5%

Game 5

- Game 5: Asymmetric information
  - ❑ Value of shworf: 1500$ (for all consumers)
  - ❑ Cost of shworf: 1000$ (for all producers)
  - ❑ If 50% of all traded items are shworfs, expected value to consumer: 750$
- Expected number of trades: **none**!

Game 7: Public Goods

- Expected results under utility-maximisation assumptions
  - ❑ Market-clearing price: 10 to 11
  - ❑ Market volume: 26
  - ❑ Welfare gains before externalities: 1147
  - ❑ Total externalities: 26*2*19=988
  - ❑ Net welfare gains: 159
- Actually observed results
  - ❑ Average market price: 21.9 (sd 12.1)
  - ❑ Market volume: 30
  - ❑ Total externalities: 30*2*19=1140
  - ❑ Total welfare gains (statistically): -14

Price

Consumers (Demand)

Producers (Supply)

Quantity
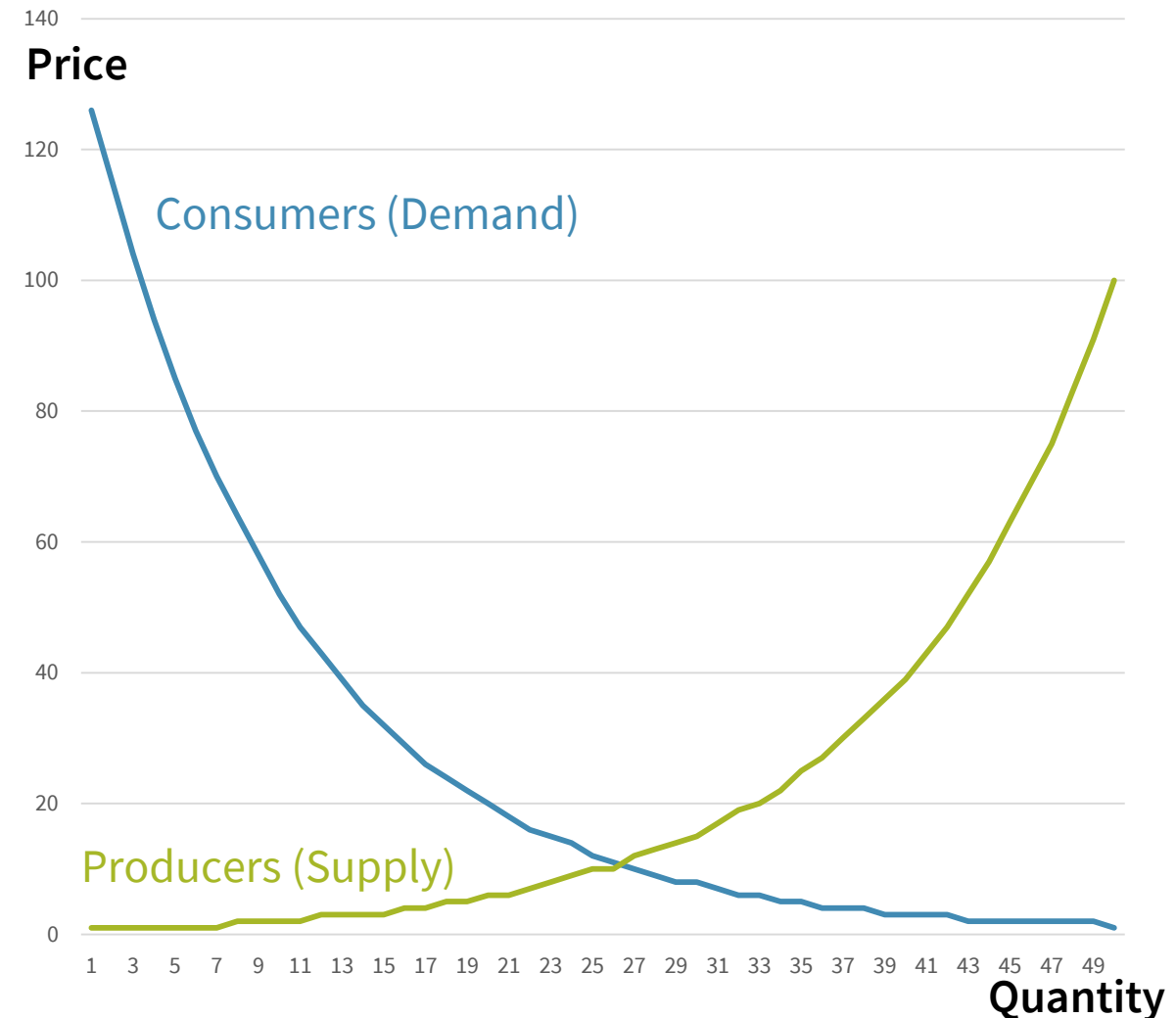
Game 7: Public Goods
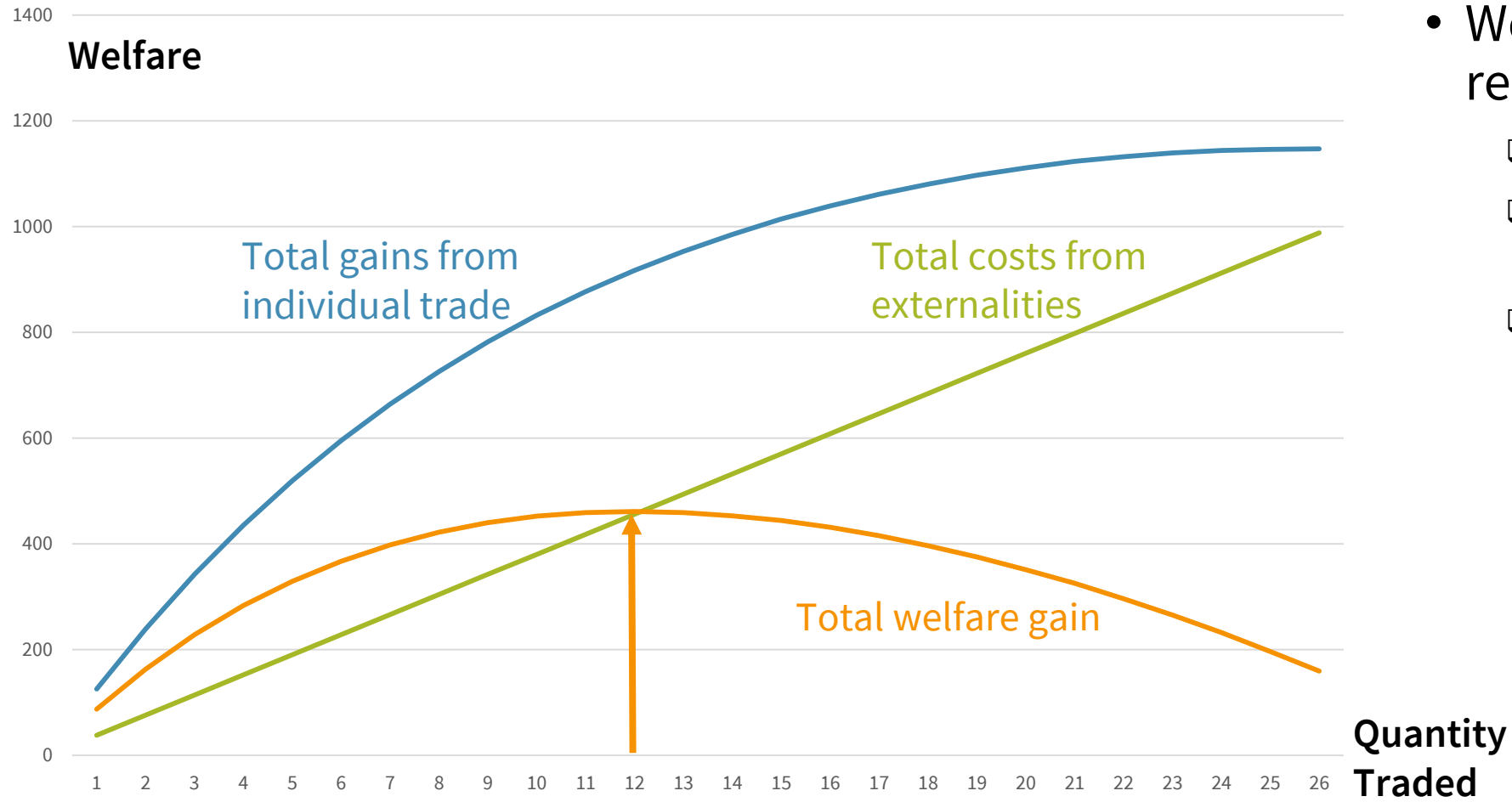
- Welfare-maximising result
  - ❑ Market volume: 12
  - ❑ Market-clearing price: 40 to 43
  - ❑ Net welfare gain: 461

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1. Game Results
2. **Discussion**

Conditions for pure markets	Associated failures
I All prices are comparable; everything is traded	1. Inability of market to deal with externalities 2. Problem of public and merit goods 3. Existence of 'goods without price' 4. Transaction costs of exchanges
II Market entry is without barriers, with multiple providers and purchasers	5. Major, virtually immovable, barriers to entry exist in many sectors 6. Inequalities of wealth and power accumulate as a result of persistent entry barriers
III Maintenance of a high volume of transactions	7. Failures of confidence inhibit potential buyers and sellers from entering the market
IV Market participants are perfectly informed	8. Major practical obstacles to fulfilment of this condition; inequalities in access to information
V Economy and polity are separated	9. Powerful interests, created by inequalities generated by 5 and 6, become insiders to political process