

GUIDED READING Activity 7-2

For use with textbook pages 173–176

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ARKET FAILURES

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

| | | |
|------------------------|----------------|----------------------|
| positive externality | market failure | negative externality |
| artificial shortages | unemployed | public goods |
| inadequate competition | externality | adequate information |

Introduction/Inadequate Competition

Over time, mergers and acquisitions have had several consequences. One is inefficient resource allocation because **1** _____ tends to curb the efficient use of scarce resources. Others are higher prices and reduced output, creating **2** _____. **3** _____ may also enable a business to influence politics by wielding its economic might. It may also happen on the demand side of the market when there are not sufficient buyers for very expensive products.

Inadequate Information

To allocate resources efficiently, consumers, businesspeople, and government officials must have **4** _____ about market conditions. Some information is harder to find than other kinds, and that can lead to a **5** _____.

Resource Immobility

A difficult problem in any economy is resource immobility, when land, capital, labor, and entrepreneurs do not move to markets in which the returns are the highest and sometimes remain **6** _____.

Externalities

Many activities generate some kind of **7** _____, or unintended side effect that either benefits or harms a third party not involved in the activity that caused it. A **8** _____ is the unwanted harm, cost, or inconvenience suffered by a third party because of actions by others. A **9** _____ is a benefit received by a third party who had nothing to do with the activity that generated the benefit. An **10** _____ is classified as a **11** _____ because its costs and benefits are not reflected in the market prices paid by the buyers and sellers of the original product.

Public Goods

Another form of **12** _____ shows up in the need for **13** _____, those products that are collectively consumed by everyone and whose use by one individual does not diminish the satisfaction or value received by others. They are usually provided by the government.