📔 Summary

2.10 Market failure – asymmetric information (HL)

Subject	Year	Start date	Duration
Economics	IB1	Week 1, February	`1 week` 3 hours

Course Part

2. Microeconomics

Description

2.10 Market failure – asymmetric information, you should be able to:

- Define the terms asymmetric information, adverse selection, moral hazard, signalling and screening.
- Explain, using examples, that market failure may occur when one party in an economic transaction (either the buyer or the seller) possesses more information than the other party.
- Explain, using examples, the concept of adverse selection.
- Explain, using examples, the concept of moral hazard.
- Evaluate possible government responses, including legislation, regulation and provision of information.
- Explain and evaluate possible private responses to asymmetric information, such as signalling and screening.

📘 Inquiry & Purpose

❓ Inquiry / Higher Order Questions

Type	Inquiry Questions
Skills-based	• The impact of a price war or of price fixing on stakeholders of a selected industry.

🔍 Curriculum

◇ Objectives

Synthesis and evaluation (AO3)

HL only: demonstrate economic synthesis and evaluation of the extension topics

📓 Syllabus Content

2.10 Market failure—asymmetric information (HL only)

Asymmetric information

Adverse selection

Moral hazard

Responses to asymmetric information

Government responses: legislation and regulation, provision of information

Private responses: signalling and screening

2.12 The market's inability to achieve equity (HL only)

Workings of free market economy may result in an unequal distribution of income and wealth

Diagram: showing the circular flow model to illustrate why the free market results in inequalities

Inquiry—possible areas to explore (not an exhaustive list)

The impact of a price floor or price ceiling in a chosen market.

The impact of a government policy to correct market failure resulting from externalities.

How different communities approach the managing of a common access resource.

The impact of a price war or of price fixing on stakeholders of a selected industry.

The risks of increasing monopoly power and abuse in a selected industry (for example, technology).

Examples of government intervention in response to abuse of market power.

How government intervention to correct a market failure (other than externalities) affects different stakeholders.

How a country's economy could thrive without depending on the overuse of finite resources and still meet people's needs.

Theory of knowledge questions

What knowledge criteria should government policy makers use to make choices between alternative policies?

The idea of environmental sustainability suggests that people should avoid destroying resources today so as not to penalize future generations. Is it possible to have knowledge of the future?

Microeconomic theory is based on the assumption of rational consumer choice and rational self-interest. Yet the principle of collective self-governance suggests that people also behave cooperatively. What assumptions do economists make about the roles of reason and emotion? Are these assumptions justified?

How can we know when a problem is sufficiently large to justify government intervention?

💡 **Concepts**

Efficiency

📝 **ATL Skills**

👣 **Approaches to Learning**

⚙️ **Thinking**

- In this unit, we will

require students to take an unfamiliar viewpoint into account when formulating arguments

👨‍💼 Developing IB Learners

⭐ Learner Profile

❤️   Principled

🖼️   Open-minded

⚖️   Balanced