

ECO 103: Outline for Class on Thursday, April 13.

For class on Thursday, April 13, we will consider how several different types of market failures have major macroeconomic implications.

Prior to class, I suggest that you briefly research a few of these topics.

1. It has been suggested that NASA's Apollo Program led to significant production spillovers, a type of positive externality. Here is an [article from *Astronomy*](#) on the issue.

a. Describe why this is arguably an example of a positive externality.

b. Why might firms choose to underinvest in research and development?

c. What other policies might correct these types of positive externalities?

d. What trade-offs are involved with awarding firms patents?

2. The [Aral Sea](#), once one of the world's largest inland bodies of water, is drying up, leading to economic and ecological disaster.

a. What policies lead to this disaster.

b. Is *short-sightedness* a type of market failure.

c. How is this an example of a negative externality?

d. How could this example generate skepticism about policy interventions designed to address market failures?

3. In the U.S. and many other countries, the government intervenes to encourage education. This [short article](#) discusses whether education is a public good or if it exhibits positive externalities. This [scholarly article](#) discusses the evidence of externalities surrounding education.

a. What is the difference between a public good and an externality?

b. How might the preferred policy intervention depend on the distinction from *a*?

c. Are public universities a typical response to a public goods problem or an externality?

d. True or False? Solid evidence on the existence of positive externalities would prove that the current U.S. education system is good policy?

4. Economists study the impact of both tax rates and property rights on macroeconomic performance. Here is [some evidence](#), I encourage you to read at least the introduction.

a. How do taxes affect some important economic incentives?

b. True or False? Higher tax rates dampen economic performance.

c. How does a lack of property rights affect some important economic incentives?

d. True or False? Weaker property rights dampen economic performance.

5. Many **observers have worried** that the policy responses to both the Great Recession and covid-19 have created moral hazard.

a. Define moral hazard.

b. How did the financial crisis of 2008 lead to moral hazard?

c. Why are most economists less worried about moral hazard and covid-19?

d. What is meant by “too big to fail?”