



## Is Market Failure an Option? | Lesson Plan

When markets fail to allocate resources efficiently, to what extent should governments intervene?

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Students will understand that government intervention can sometimes correct market failures, but such action should be careful and limited because markets function best when buyers and sellers interact directly.

### Learning Objectives:

- Explain how market failures occur when buyers and sellers lack full information about costs and benefits.
- Analyze examples of demand-side and supply-side failures, including public goods and externalities.
- Apply the concept of government intervention (e.g., laws, taxes, subsidies) to real-world situations where markets do not allocate resources efficiently.
- Compare the effectiveness of free markets versus government intervention in addressing economic challenges.
- Summarize the key reasons markets sometimes fail and how intervention can set them back on track.

### Key Vocabulary:

- **Market:** A system where buyers and sellers come together to exchange goods and services.
- **Market Failure:** A situation where markets do not allocate resources efficiently, often because of missing information, external costs, or benefits not reflected in prices.
- **Demand-Side Failure:** When the market struggles to know how much people want or value something, often because individuals don't directly pay for it.
- **Supply-Side Failure:** When the actual cost of producing something is greater than what producers pay to make it, leading to overproduction, pollution, or waste.
- **Externalities:** Side effects of economic activity that affect people who aren't directly involved in the exchange. Externalities can be either positive (benefits) or negative (costs).
- **Pigouvian Taxes:** Special taxes on goods or services designed to discourage harmful overproduction.

**Educational Standards:** CCRA.R.7, CCRA.R.10, CCRA.W.2, CCRA.W.4, CCRA.W.7, CCRA.SL.1, CCRA.SL.2, CCRA.L.6

**Academic Subject Areas:** Economics, Government, History



## What You'll Need

- Video: *Ca\$h Cour\$e: Is Market Failure an Option?* (Watch [Here](#))
- Worksheet: *Ca\$h Cour\$e: Is Market Failure an Option?* (Click [Here](#))
- Classroom whiteboard and dry-erase markers (or use a technology solution if available).

## Lesson Plan (50 mins.)

### Warm-Up: (20 mins.)

1. Begin with an illustration: Imagine a school cafeteria. At first, it works well—producing and selling food students want and are willing to pay for. There are no issues, and the school garden even makes the campus look better. Then the principal decides to encourage healthy eating by offering free salads. Some kids grab them and dump them straight into the trash, while others who actually want salad can't get any. The cafeteria has no way to measure true demand when this happens. Later, it's discovered that the cafeteria staff have been cutting costs by dumping grease down the sink instead of paying to dispose of it properly. This clogs the pipes and causes expensive plumbing problems across the school. Together, these problems show how a system that normally works well can break down when information is missing or true costs are ignored.
2. Discuss with students the above scenario using these questions to guide and direct connections:
  - How did making the salad free change students' behavior?
  - The cafeteria believed it was saving money with the grease, but it ended up costing the school more than ever. How are those costs factored into the cost of making food?
  - What were the failures that the cafeteria experienced? What factors lead to those failures?
3. Explain to the students that the cafeteria scenario is like our market economy. Just like the free salads meant the cafeteria couldn't measure true demand, or the dumping of grease down the drain created hidden costs for the whole school, these are examples of **market failure**. In our real market economy, market failures happen when information is missing, when costs or benefits aren't fully counted, or when outside factors have effects that are ignored. Just like the cafeteria's failures impacted students and the school, market failures can affect communities, businesses, and even whole countries.
4. Explain that this lesson will cover different types of market failures and introduce the vocabulary they will encounter on the whiteboard. Write each term along with the definition and an example that relates back to the cafeteria scenario:
  - **Market:** A system where buyers and sellers come together to exchange goods and services. *Example:* Students buy a variety of foods from the cafeteria, which in turn is able to produce and supply.
  - **Market Failure:** A situation where markets do not allocate resources efficiently, often because of missing information, external costs, or benefits not reflected in prices. *Example:* Free salads are wasted, and dumping grease causes costly plumbing problems.

- **Demand-Side Failure:** When the market struggles to know how much people want or value something, often because individuals don't directly pay for it. *Example:* Free salads make it impossible to know how many students really want them.
  - **Supply-Side Failure:** When the actual cost of producing something is greater than what producers pay to make it, leading to overproduction, pollution, or waste. *Example:* The cafeteria saves money dumping grease, but the school pays for clogged pipes.
  - **Externalities:** Side effects of economic activity that affect people who aren't directly involved in the exchange. Externalities can be either positive (benefits) or negative (costs). *Example:* The school garden benefits everyone (positive), while grease clogs hurt the whole campus(negative).
  - **Pigouvian Taxes:** Special taxes on goods or services designed to discourage harmful overproduction. *Example:* The school is charged a fine for dumping grease down the drains, making them put measures in place so it doesn't happen again.
5. Transition to today's enduring question and explain that this question will help guide their understanding of today's lesson: *When markets fail to allocate resources efficiently, to what extent should governments intervene?*
  6. Introduce today's Cash Course video and ask students to take notes on terms and examples as they happen.

Watch and Discuss: (20 mins.)

1. Show the *Ca\$h Cour\$e: Is Market Failure an Option?* video to the class.
2. Note to teachers: watch straight through or pause at key moments to clarify terms or examples as you go.
3. After the video, ask the following discussion and comprehension questions:
  - How do markets normally match what buyers want with what is produced?
  - What does "market failure" mean, and how is it different from a stock market crash?
  - What's an example of a demand-side failure and a supply-side failure, and how do they affect efficiency?
  - What's the difference between a positive and negative externality, and how do they impact people who aren't directly involved?
  - When markets fail, what tools can governments use to fix the problem, and what risks come with government involvement?
4. Give each student the "Is Market Failure an Option? Worksheet" and allow them to complete it independently or in pairs.

Wrap-Up: (10 mins.)

1. Go over worksheet answers and responses. Ask students to share examples of their application questions and answers.

2. Remind students that the lesson's main argument is that market failures can and do happen, and measures can be taken to correct them—but those measures must be carefully considered. Encourage students to:
  - Have a response for the enduring question (*When markets fail to allocate resources efficiently, to what extent should governments intervene?*).
  - Understand that missing information, hidden costs, or externalities are what drive market failures.
  - Include one quick example from the video to illustrate a point.
3. Wrap up with an exit ticket:
  - Prompt: Summarize some basic causes of market failures and how they can lead to unexpected benefits or costs that impact others. Give one example when it would be appropriate for the government to intervene.
  - Students can write a quick response on an index card, in their notebook, or on the back of their worksheet.
4. Collect Worksheets: Use the completed worksheet as a way to assess comprehension and mastery of the lesson objectives.

### **Don't have time for the full lesson? Quick Activity (10-15 mins.)**

Distribute the worksheet and allow students to complete it while they follow along with the video. Or, have students watch the video at home and use the worksheet as a quick quiz the next day in class.