What is meant by **Government failure**?

State the **four main causes** of government failure:

Like Hayek said, how can a **lack of information** and the government’s perception of Q\* lead to government failure?

Use the axes below: Consider the Coalition’s decision to **increase university tuition fees**, in order to make more funding available to universities (presumably to increase quality), how has this arguably made the under consumption of further education even worse?

**Mr Wilson’s Thinking Further Challenge…**Through the reduction in the uptake of university courses - what other, wider implications could occur as a result of this government failure? How could this negatively impact society?

**Government failure in the housing market**

Another market in which governments have intervened in the past (UK in the 1960s, Chicago and New York) is the housing market. If the government regards the free market level of rent excessive, to the point where households on low incomes may be unable to afford rented accommodation, then, given that housing is one of life’s necessities, it may regard these high rents as unacceptable.

The temptation for the government is to move this market away from its equilibrium by imposing a maximum level of rent that landlords are allowed to charge their tenants. Strategies such as this have been imposed by governments (indeed Ed Miliband suggested the idea last year) and have consequently resulted in government failure.

There are two effects that follow. Firstly, landlords will no longer find it profitable to supply as much rental accommodation (due to the limit on the amount of rent that they can charge). Secondly, at this lower rent there will be more people looking for accommodation, there will be a disequilibrium in which the demand for housing is higher than the supply. The government failure occurs in that there is less accommodation available and subsequently, more people are left homeless. The price ceiling interferes with the market mechanism and removes the incentive for landlords to increase supply.

It can be seen that the well-meaning rent control policy, intended to protect low-income households from being exploited by landlords, merely has the effect of reducing the amount of accommodating available – unintended consequences.

**Task:** Draw a demand and supply diagram to demonstrate a rent control policy.

Seeing as though rent controls illustrate government failure diagrammatically, other than removing the rent control, suggest two methods which could be used to reduce/eliminate the government failure.

**Minimum Wage**

We deal with the labour market in more detail in Year 13. But another example of a price floor, would be the minimum wage. Draw the demand and supply curves for the labour market and illustrate the impact of a minimum wage.

Explain the initial intentions of the government for implementing a minimum wage.

What unintended outcomes might occur from implementation of a minimum wage? Use the diagram and other ideas. Consider how a business may respond.

**Mr Wilson’s Thinking Further Challenge**The new National Living Wage is only for those over 25, what might be the impacts of this?