

Question:

3 In the UK, private firms organize air shows and sell tickets for entry to the event area at prices up to £25. Popular as these shows may be, some choose to watch the air shows from the hills surrounding the event area. The Singapore Air Show, which is also organized by a private firm, is considered to have a strategic national interest.

(a) Explain why the markets both for public goods and merit goods may not work efficiently. [12]

(b) Discuss the view that air shows should be provided by the government. [13]

Interpret the Question – Part (a)

a) Explain why the markets both for public goods and merit goods may not work efficiently. [12]

What is the cue word?
(what are the skills required for this question?)

Explain why – Make clear the causal links for the key issue / concepts

What is the concept word?
(what are the concepts required to answer this question?)

mkts for public goods
mkts for merit goods
work efficiently

What is the context word?
(what is the context for this question?)

Public / Merit goods (Open context)

Schematic Plan

Define: Mkt Failure,
Scope: Public & Merit gds

<p>Explain Public Gds & how mkt fails ----- NR → MC=0 → for AE price needs to be 0 ----- NE → free-rider → no eff dd → firms can't charge P → non provision ----- Soc welfare not max IF public gd brings benefits to society</p>	<p>Explain Merit Gds & how mkt fails: +ext (MEB) → MSB>MPB free mkt: MPB=MPC @Qe soc opt: MSB=MSB @ Qs (diagram) Qe<Qs under cons in free mkt DWL (Area) => M.F</p>
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Introduction (GIST)

Introduction	Market failure refers to a situation where the free market , in the absence of government intervention , fails to achieve economic efficiency . In the area of public goods and merit goods , they cause the market to fail to work efficiently where an efficient allocation of resources is one which maximizes society's welfare . This occurs when marginal social costs (MSC) is equal to the marginal social benefits (MSB) in production or consumption. Public goods cause market failure as there is non-provision in the market, while merit goods are underconsumed.
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Body (PEEL)

What is the most important point?

State the Point (P)	In the free market , there is complete market failure (missing market) in the market for public goods due to non-provision .
<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>A public good is indivisible and cannot be produced or sold easily in small units. This can be explained by the two key characteristics of non-rivalry and non-excludability.</p> <p>A good is non-rivalry if one person's consumption of the good does not reduce the quantity available to another person. Because of this, once a public good is provided, the marginal cost of providing the good to an additional user is zero. For example, in the provision of National Defence, once provided, one person enjoying the benefits of security/stability will not diminish the amount of national defence (security/stability) available to another living in the same country, thus others can enjoy the good at no additional costs to the provider. For allocative efficiency, public goods must be priced at zero (P=MC).</p> <p>A good is non-excludable if it is difficult to exclude non-payers from enjoying the good. National defence is provided for an entire area, it is not possible to deny protection to a tourist who enters a country, if there is protection for others in the same area. This gives rise to a free rider problem. Since non-payers can also enjoy the good, no one would be willing to pay for it.</p>

	Since demand is defined as the ability and willingness to pay for a good, there is no effective demand, hence firms will not be able to charge a price for provision of a public good and thus <u>profit-seeking firms will not produce the good at all.</u>
Link back to Qn	This is considered a market failure if there are high benefits to society from the consumption / provision of public goods. For National defence, the benefits include political and social stability, which attracts FDI, boosting short and long run economic growth and development in a country. Without National defence, society loses out on these benefits and suffers a welfare loss, hence non-provision of this essential good or service is considered a case of market failure where resources are not efficiently allocated to produce public goods.

What is the second most important point?	
P	Merit goods are deemed by the government to be socially desirable and have positive externalities in consumption and thus tend to be under consumed.
<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>Education is an example of a good with positive externalities. When education is consumed, people consider only their marginal private costs (MPC) (<i>school fees / cost of books</i>) and marginal private benefits (MPB) (<i>future job opportunities / higher income</i>). They do not consider marginal external benefits (MEB) where a skilled workforce attracts FDI, increasing job opportunities and incomes for others who have not consumed as much education. Individuals consume where MPB=MPC at Q_m. The socially optimum level is where MSB=MSC at Q_s. Since $Q_m < Q_s$, there is underconsumption of education. Between Q_m and Q_s, every additional unit of education consumed adds more to social benefit than to social cost. Hence, there is a deadweight loss of area ABC.</p>
Link back to Qn	Thus the consumption of merit goods like education in the free market is below the socially optimal level and resources are not efficiently allocated in the market for merit goods.

Conclusion (SR)	
Conclusion	<p>Thus public goods are not provided in the free market and society loses out on the benefits to society from the provision of public goods, while merit goods are under consumed, as consumers do not consider external benefits when they consume merit goods. In both cases, there is an inefficient allocation of resources and thus markets do not work efficiently.</p> <p>For such cases, governments can intervene in markets to improve the allocation of resources, and we will examine what governments should do for air shows.</p>

Question:

3 In the UK, private firms organize air shows and sell tickets for entry to the event area at prices up to £25. Popular as these shows may be, some choose to watch the air shows from the hills surrounding the event area. The Singapore Air Show, which is also organized by a private firm, is considered to have a strategic national interest.

(a) Explain why the markets both for public goods and merit goods may not work efficiently. [12]

(b) Discuss the view that air shows should be provided by the government. [13]

Interpret the Question – Part (b)

b) Discuss the view that air shows should be provided by the government. [13]

What is the cue word?
(what are the skills required for this question?)

Discuss the view – present 2 sides to examine the view FOR and AGAINST the issue in the qn.

What is the concept word?
(what are the concepts required to answer this question?)
provided by the government
(vs not provided by the government – i.e: provided by private firm, with other forms of intervention if any)

What is the context word?
(what is the context for this question?)
Air Shows (students need to determine / argue as to whether it is a public good or not)

Schematic Plan

Define: Air shows = public (yes / no) / Private firms provide (reality)
Scope: G Shld Prov (A.Eff) vs G shld not (Other policies A.E / P.E / Debt)

1) Type of good?
A.Show (public)
NR (+ consumers no effect on air show in sky)
NE (can watch from anywhere)

A.Show (not public)
E: can exclude entry into event area

2) Govt Shld Prov
A.show NR, thus A.Eff price is 0.
If govt provide, can set $P=0 \rightarrow A.E$
A.show has social benefits
(ec growth, +X for country: aerospace industry)

3) Govt Shld Not
Private firms provide
(sponsorships / advertising)
G subs / legislate
P can also =0
Govt prov \rightarrow prod.
Inefficiency
(not profit driven)

4) Govt Shld Not
Debt?
Must cut G
Other G more important (health, edu, nat.def)
No Soc Benefits?
Some cties have no aerospace industry

Introduction (GIST)

Introduction

Air shows seem to have some characteristics of public goods, however, in the real world, private firms still provide air shows and can charge prices to consumers who are willing and able to pay. Whether private firms can provide air shows efficiently and whether government provision may help to improve efficiency in this market will determine whether air shows should be provided by the government. It is important to examine also the opportunity cost of spending government funds on providing air shows when the role of the government extends to many other markets and areas such as merit goods and even managing the macroeconomy.

Body (PEEL)

What is the context about?	
State the Point (P)	Air shows have some characteristics of public goods and some government intervention may be necessary.
Explain the point with clear causal links (E) Elaborate the point with examples/diagram	If we define air shows as watching the different aircraft and pilots fly the planes in formation and do tricks and stunts in the sky, air shows can be considered to be non-rivalry. An additional person watching the pilot flying his plane in the sky will not reduce the visibility of others concurrently watching the show. Also, it can be considered to be non-excludable, as it is difficult and impossible to prevent or exclude non-paying bystanders on nearby hills from enjoying the air show, which takes place high in the sky. In this case, given that air shows has characteristics of a public good, the private firms should not be providing air shows. However, in reality, private firms provide air shows and charge prices for admission tickets to customers and some customers are willing and able to pay up to £25 for these tickets. This could be because the events area for the air shows is excludable, and people without tickets can be denied entry at the gates to these enclosed spaces. The booths and activities within the events area of an air show are hence not a public good as it is excludable.
Link back to Qn	Thus, depending on which aspect of air shows one examines, air shows may or may not be a public good.

Thesis (Should be provided for by the govt)

What is the main argument FOR?	
State the Point (P)	Because air shows are non-rivalry, the government should provide the good at a zero price to achieve allocative efficiency.
Explain the point with clear causal links (E) Elaborate the point with examples/diagram	Whether we consider the act of watching the air show, or enjoying the events within the events area of the air show, assuming the events area is not overcrowded, it can be considered to be non-rivalry since additional consumers will not deny others the chance to enjoy the events and the shows from within the air show area. For such cases, $MC=0$, hence the allocative efficient price under the allocative efficiency condition of $P=MC$ would be 0. This would be the case for government provision as the government can utilize government revenues from taxes or other sources to provide air shows for free, hence achieving allocative efficiency. Air shows may have a strategic national interest as it can showcase the capabilities of domestically produced planes and fighter jets, which may help a country boost exports of the aerospace industry, which promotes economic growth, thus there will be social benefits from the consumption of air shows in a country.
Link back to Qn	Thus, air shows should be provided for the government, as it will enable allocative efficiency to be achieved in the market and help a government achieve macro and micro aims.

Anti-Thesis (Should NOT be provided for by the govt)

What is the next most important point?	
P	However, in reality, private firms can charge prices and provide air shows, thus the government can use other policies to ensure efficiency.

<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>Since private firms provide air shows, the government can subsidize these firms entire cost so that the firms sets price equals to zero, or impose legislation to mandate that firms set price at 0 while giving lump sum subsidies to help private firms offset their costs. These alternative policies can result in the market being allocative efficient as well, and may be a better option as it means the government does not need to manage the market for air shows and focus its efforts in the provision of more essential public goods such as national defense and police or civil defense services (fire stations). The subsidies to offset firms' costs may be less than full government provision because the organisers can often get sponsorship and funding from advertising and sales of souvenirs at these air shows, as firms' want to publicize their planes or cutting edge aerospace technology to visitors to the show, which may include people in the aerospace industry or government who are potential customers. Also, the government firm is not profit motivated, it may be providing air shows at higher average costs compared to profit seeking firms, thus government provision may result in productive inefficiency.</p>
Link back to Qn	Thus efficiency can be achieved even without government provision, and other policies may be better.
Anti-Thesis (Should NOT be provided for by the govt)	
What is the next most important point?	
P	Not all governments should provide air shows, as it depends on the state of public finances (and debt) as well as the benefits that air shows bring.
<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>Some governments may have very high levels of public debt, and cannot afford to channel resources to the provision of air shows. Such governments like the USA, UK or Japan have to weigh the relative importance of air shows compared to healthcare, education and national defense. When there is a need to reduce government spending to reduce budget deficits, it is likely that air shows will be the first areas facing spending cuts. This may be because air shows are considered a form of entertainment and something that private firms do provide in reality, thus it is not as important as the other areas. Some governments, like those of developing countries in Africa have no comparative advantage in the aerospace industry, hence such shows do not benefit the domestic economy as much as say Singapore, where her aerospace industry is growing and can benefit from more orders of new aircraft engines that boost her exports and economic growth.</p>
Link back to Qn	In effect, the government needs to do a cost benefit analysis to decide whether the benefits to society from the provision of air shows are worth the costs involved.
Conclusion (SR)	

Conclusion	<p>Air shows may have characteristics of public goods, but in reality, firms can make profits through advertising revenues and people are still willing to pay to enter the event area. While there are some social benefits of air shows and for some governments, air shows can boost their economy, governments need to weigh the costs and benefits to decide on the relative importance of air shows compared to other essential areas like healthcare, education and national defense, as well as consider whether they have a high public debt to manage. Other policies may bring about a greater level of efficiency than government provision as well. Thus my stand is that air shows should not be provided for by most governments.</p>
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