Role of Government in Market Failure

[Name of the Writer]

[Name of the Institution]

Role of Government in Market Failure

 Market failure is an economic term that refers to the inability of the market to allocate the resources appropriately. There are several reasons for market failure. However, two of the common causes are monopoly and externalities, and other factors could be public goods, overproduction, and overconsumption. On the other side, a government desires to have a market full of resources because the market plays a vital role in improving the economy of the country (Johnson, 2015). A failure of the market means the whole economy of the country is failed; therefore the government plays its role to recover the market.

 The role of a government in recovering the market from failure cannot be ignored. One of the market failures is a monopoly. In the case of Monopoly, there is no competition, and the market fails when there is insufficient competition. The monopoly power provides the companies to control the market according to their own interest (Mazzucato, 2015). A market needs stewardship in order to be responsible for the consumption and distribution of resources. In this case, the producers need to apply stewardship in order to save the market from failing and it can be achieved by being resourceful. Sometimes, the monopoly even challenges the government intervening in the market; otherwise there are chances of market collapse. At the same time, the market would not remain productive because of monopoly. In such cases, the government needs an intervention.

The government has the authority to regulate the market to the problem. For instance, there is only one Airline Company in the market, and it has a monopolist power to alter the fares according to their will. They know that no matter how much they increase the fares, the passengers will not stop using their air services because they do not have any second choice. In this case, the government needs to pass a regulation to control the prices. As a result, the monopoly will be broken, and new competition will be held in the market.

 Secondly, externalities also cause market failure. It is an effect caused by the third party due to the consumption of a particular good or service. Sometimes externalities harm the third party by influencing them without their consent (Gwartney & Ferrarini, 2014). For instance, a company in the market decides to construct its plant near a river in a village. As a result, it emits pollutants in the water and atmosphere that influences the people who consume river water and also live near the factory. When people are negatively affected by the pollution from the factory, they can concern a lawyer in this matter because the government has regulated it.

 The government has the right to interfere in this case. It will apply some rules and regulations to control the external costs of the company. The government would regulate the company through environmental tax. At the same time, knowing the value of stewardship, the company can build a clean water plant for the villagers or compensate through any other social corporate responsibility. Moreover, Saint Leo's core values are also applicable in market intervention and also assist the market entities. It is the moral duty of the market entities to show some responsibility in case of negative externality.

 There are so many other examples for the role that is played by the government to overcome the market failure consequences. Sometimes, markets fail in providing the resources to people because there is the unavailability of information for consumers about the product. The government plays its role in such situations by regulating the business entities through policies that they will communicate about their product in the market. Likewise, all the cigarettes companies are authorized to convey the adverse effects of their product on the market.

**References**

Gwartney, J., & Ferrarini, T. (2014). The Economics of Market Failure.

Johnson, M. (2015). Public goods, market failure, and voluntary exchange. History of political economy, 47(suppl\_1), 174-198.

Mazzucato, M. (2015). Innovation systems: from fixing market failures to creating markets. Revista do Serviço Público, 66(4), 627-640.