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# GOVERNMENT AND ECONOMICS: *Day 3 – Failures*

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*When All Else Fails... Blame Trump?*

# OBJECTIVES

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- **Explain what constitutes “failure” economically**
- **Understand the difference between Market and Government Failure**
- **Identify 3 Results of Government Failure**
- *Terms:*
  - **Market Failure**
  - **Government Failure**
  - **Recession**
  - **Depression**
  - **Bankruptcy**
  - **Asset**

# REMINDE ME...

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- **What are the ways that Government is NOT like a Business?**

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  - *Revenue, Productivity, and Budget*
- **What is a “Budget” anyway? And what does it mean to be balanced?**
- *What’s the difference between Debt and Deficit?*
- *Besides Direct Services and Direct Assistance, what two ways does the Government get involved?*
- *Are these always successful / effective?*

# EPIC FAIL!

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- *Let's go back to Private Consumers and Businesses...*
  - *What would constitute a "failure" for Supply and Demand?*
  - **Equilibrium is NOT met**
    - *That could mean a Surplus OR a Shortage, but either way, we are NOT being very "efficient"*
- **Market Failure**
  - **When a Private Industry is NOT performing efficiently**
    - *What do we think efficiency means?*
    - **Inefficiency, then means WASTED RESOURCES**



EPIC FAIL!

**CALL OF DUTY, IN REAL LIFE**



# EPIC FAIL!

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- ***So a Market Failure is when an Industry performs inefficiently...***
  - ***What could be done to fix it?***
  - ***SHOULD something be done to fix it?***
  - ***If so, WHO'S job is that?***
  - ***You see, not everyone even agrees if the Government has that job, because if they DO get involved that means no more free market, PLUS if it "costs" the Government.... Who pays for THAT?***

# GOVERNMENT FAIL

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- *So... the Government gets involved to try to help Market Failure... and sometimes they are successful, but other times they aren't.... And that gives us...*
- **Government Failure**
  - **When a government intervention for Market Failure makes the situation worse**
  - *i.e. There is MORE of a shortage, surplus, or a business is failing...*
  - *There are also tons of other terms which will come in Macroeconomics – after this test*

# EFFECTS OF FAILURE

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- *We will look next unit more at “whole” or “Macro” economics, but there are*

## **3 Major Results of Government Failure**

- **1) Recession**
- **2) Depression**
- **3) Bankruptcy**



# RECESSION



- **Significant decline in economic activity across the economy**
- **Lasts more than a few months**
- **Involves Production AND Consumption**
- **Natural Part of Economic Cycle**
- *(Also involves something we have not yet talked about, called GDP)*



THE GREAT RECESSION

It's hitting EVERYONE

# DEPRESSION

- **A Recession that lasts two or more years**
- **Has MASSIVE downturn in economy**
- **WILL NOT recover without assistance!**
- *(Also involves things we haven't talked about like inflation and unemployment)*



# BANKRUPTCY

- If a person or business has so much debt it can NOT pay it (*and likely would never be able to*) it can declare bankruptcy
  - Legal judgment that a person or company can not meet its debt
  - Almost all of its assets *can* be seized
    - *Certain things are protected by law*
  - Its **unsecured** debts prior to declaring bankruptcy are forgiven
- **Asset**
  - *Any item with economic value*
  - *Includes savings, stock, possessions, etc.*



# SO...

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- *Why not just declare bankruptcy?*
  - *Future Credit, Losing Assets, Have to report it forever....*
  - *But for some, it IS the best / last resort.*
- *Further, while a Depression is definitely bad, Recessions come in different forms... and just because it's part of the natural cycle, doesn't mean we should ignore it... like lightning.*

**GO HOME LIGHTNING**



**YOU'RE DRUNK**

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