

Betting on Failure: Profiting from Defaults on Subprime Mortgages



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Market Failure- Gambling

What is market failure?

Market failure occurs when the price mechanism fails to allocate scarce resources efficiently. It also occurs when the society thinks that the competitive outcome of markets is unsatisfactory. The result is a loss of economic and social welfare.

The two types of market failure are complete and partial.

Reasons for MF

- Negative externalities
- Positive externalities
- Information failure
- Market dominance by monopolies
- Equity issues

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MF in the gambling industry



The gambling industry represents market failure because not everybody benefits from it equally. Some win more than others which some may seem as unfair because people put in similar amounts.

Consequences

The government does not receive an income from illegal gamblers through tax or betting duties. This means that there is less spending from the government and not everybody benefits equally. Also everybody that gambles puts money in but not everyone wins. So again, not everyone benefits equally.

Causes

The market failure is caused mainly by problem gambling as it leads to a lot of problems including more spending on health care or more crime and fraud. Also the market failure is caused by illegal gambling. A lot of problem gamblers that start of gambling legally usually end up gambling illegally.

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