

# DEMERIT GOODS AND MERIT GOODS

(1)\_\_\_\_\_ goods are goods which are deemed to be (2)\_\_\_\_\_ undesirable, and which are likely to be over-produced and (3)\_\_\_\_\_ -consumed through the market mechanism. Examples of demerit goods are cigarettes, alcohol and all other addictive drugs such as heroine and cocaine.

The consumption of demerit goods imposes considerable negative (4)\_\_\_\_\_ on society as a whole, such that the private (5)\_\_\_\_\_ incurred by the individual consumer are less than the (6)\_\_\_\_\_ costs experienced by society in general; for example, cigarette smokers not only damage their own health, but also impose a cost on society in terms of those who involuntarily passively smoke and the additional cost to the National Health Service in dealing with smoking-related diseases. Thus, the price that (7)\_\_\_\_\_ pay for a packet of cigarettes is not related to the social costs to which they give rise i.e. the marginal social cost will exceed the market price and (8)\_\_\_\_\_ and over-consumption will occur, causing amisallocation of society's scarce (9)\_\_\_\_\_.

(10)\_\_\_\_\_ goods confer benefits on society in excess of the benefits conferred on individual consumers; in other words, there is a divergence between private and social costs and benefits, as the social benefits accruing to society as a whole from the consumption of such goods tend to be greater than the private benefits to the individual. This divergence means that the private market cannot be relied upon to ensure an (11)\_\_\_\_\_ allocation of society's scarce resources. The problem is that individual consumers and producers make their decisions on the basis of their own, internal costs and benefits, but, from the standpoint of the (12)\_\_\_\_\_ of society at large, externalities must be considered.

CONSUMERS COSTS DEMERIT EFFICIENT EXTERNALITIES MERIT OVER  
OVERPRODUCTION RESOURCES SOCIAL SOCIALLY WELFARE

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STUDIES, ECONOMICS, ICT AND ACCOUNTING.

# KEY -DEMERIT GOODS AND MERIT GOODS

Demerit goods are goods which are deemed to be socially undesirable, and which are likely to be over-produced and over-consumed through the market mechanism. Examples of demerit goods are cigarettes, alcohol and all other addictive drugs such as heroine and cocaine.

The consumption of demerit goods imposes considerable negative externalities on society as a whole, such that the private costs incurred by the individual consumer are less than the social costs experienced by society in general; for example, cigarette smokers not only damage their own health, but also impose a cost on society in terms of those who involuntarily passively smoke and the additional cost to the National Health Service in dealing with smoking-related diseases. Thus, the price that consumers pay for a packet of cigarettes is not related to the social costs to which they give rise i.e. the marginal social cost will exceed the market price and overproduction and over-consumption will occur, causing a misallocation of society's scarce resources.

Merit goods confer benefits on society in excess of the benefits conferred on individual consumers; in other words, there is a divergence between private and social costs and benefits, as the social benefits accruing to society as a whole from the consumption of such goods tend to be greater than the private benefits to the individual. This divergence means that the private market cannot be relied upon to ensure an efficient allocation of society's scarce resources. The problem is that individual consumers and producers make their decisions on the basis of their own, internal costs and benefits, but, from the standpoint of the welfare of society at large, externalities must be considered.