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THE IMPACT OF MARKET FAILURES ON ECONOMIC DEVELOPMENT: EVIDENT FROM LOW AND MIDDLE INCOME COUNTRIES

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ABSTRACT

Market failures occur when goods and services **allocated** through market mechanisms results in inefficient outcomes that fail to maximize social welfare. These failures **may** arise from various sources, **which includes** externalities public goods, information asymmetry, monopoly power, and factor immobility. **Market failure have disadvantages for** economic development because they distort **how resources are allocated, reduces production, deject investment, and enhance inequality.** While competitive markets are generally expected to allocate resources efficiently, numerous studies point out that market imperfections often prevent economies from achieving best possible outcomes (Stiglitz, 2000; Mankiw, 2021). **This article** examines the impact of market failures on economic development by reviewing theoretical and empirical literature from different scholars. The article is based on welfare, economics, Public Goods Theory, Externality Theory information Asymmetry Theory, and Institutional Theory to explain how market imperfections affect growth and development. The article reveals that negative externalities, monopolistic practices, insufficient provision of public goods, and information asymmetry contribute extensively to inefficiencies in how goods are produced and affects the level of the production and consumption. These distortions **avert innovation level** which leads to low level of productivity, and aggravate poverty and inequality, particularly in global south economies (Acemoglu & Robinson 2012, Rodrik 2018). **This article** concludes that there must be effective government intervention necessary to correct market failures and promote sustainable

growth. Policies intend at regulating monopolies, improving information transparency, strengthening institutions, and investing in public goods which should be an essential goal for achieving long-term economic development and social welfare. The article contributes to existing literature by integrating theoretical perspectives and pragmatic proof to provide a complete understanding of the relationship between market failures and economic development.

KEYWORDS: Market Failures, Economic Development, Externalities, Public Goods Information Asymmetry, Monopoly, Welfare Economics, Economic Growth.

1.0 INTRODUCTION

According to (Todaro & Smith 2021) Economic development refers to sustained improvements in living standards, productivity, income levels, employment opportunities, and overall social welfare within an economy. Classical and neoclassical economic theories argue that competitive markets allocate resources efficiently through the price mechanism. According to Adam Smith's concept of the "invisible hand," individual self-interest leads to socially desirable outcomes in well-functioning markets (Smith, 1776/2007). However, real-world markets often fail to achieve efficient resource allocation. Bator (1958) defined market failure as a situation in which markets do not allocate resources efficiently, thus resulting in outcomes that reduce social welfare. According to him he argued that Market failures occur when the assumptions of perfect competition are violated, which may include conditions related to information availability, competition, external effects, and public goods provision.

According to Stiglitz (2000), market failures are among the primary justifications for government involvement in economic affairs. Externalities, public goods, monopoly power, and information asymmetries create inefficiencies that distort production and consumption decisions. These distortions may lead to low production, overproduction, misallocation of resources, and perpetual poverty. According to North (1990) Global south economies are particularly exposed to market failures because of weak institutions, insufficient infrastructure, and limited regulatory capacity. The consequences of the above by North, according to Acemoglu & Robinson, (2012). include low investment rates, poor technological advancement, environmental degradation, and unequal distribution of income. The relationship between market failures and economic expansion has attracted most of the scholars' interest. Studies have showed that unsolved market failures restrain production and hinder growth opportunities (Rodrik, 2018, Stiglitz 2019). On the other hand

effective policies that address market imperfections, which is referred to as real-world economic conditions that deviate from the theoretical model of perfect competition, preventing the optimal distribution of goods and service can inspire innovation, improve resource allocation, and increase economic performance, by government reducing interventions like taxes, regulations, and public provision to align private cost with social welfare.

This article therefore studied the impact of market failures on economic development by examining major forms of market failure, by reviewing theoretical perspectives, analyzing empirical evidence, and proposing policy implementation

1.2 Statement of the Problem

Despite extensive progress in economic theory and policy design, market failures remain a major barrier to economic progress across both developed and global south economies. Governments often rely on markets to allocate resources efficiently, yet several imperfections hinder markets from achieving socially best possible outcomes (Mankiw 2021). In global south economies, market failures are evident through insufficient infrastructure, environmental degradation, information asymmetry, monopolistic practices and inadequate provision of public goods. These challenges reduce investment, hinder production growth, and limit creation of employment (Todaro & Smith, 2021). According to Rodrik (2018) He argued that even though wide literature exists on individual forms of market failure, limited studies have at length examined how they affect economic development. In addition, many studies focus on developed economies while neglecting the unique institutional and structural conditions present in global south economies. As a result, there is a need for an inclusive review that integrates theoretical and empirical view to explain how market failures influence economic development and what policy and interventions can effectively address these problems.

1.3 Literature Review

1.4 Concept of Market Failure

The idea of market failure originates from welfare economics Bator (1958). According to him market failure occurs when market forces fail to allocate resources efficiently. This inadequacy results in a deviation between private and social costs or benefits. Mankiw (2021) argues that market failures emerge when individuals and firms acting in their own self-interest fail to maximize total societal welfare. Such failures give good reason for government involvement through regulation, taxation, subsidies and direct provision of

goods and services. Stiglitz (2000) identifies four major sources of market failure as follows: Public Goods, Externalities, Market Power (Monopoly) and Information Asymmetry. These sources influence economic performance by affecting production efficiency, investment decisions, and how income is distributed.

Types of Market Failures

1.5 Public Goods

Public goods are characterized by non-rivalry and non-excludability according to (Samuelson 1954). Examples include national defense, public roads, street lighting and public education. Because individuals cannot easily be excluded from consumption, private firms often lack incentives to provide public goods efficiently. On the other hand, governments play a central role in financing and supplying these goods. Samuelson (1954) argued that insufficient provision of public goods results in low investment, therefore limiting economic development.

2.0 Externalities

Externalities occur when economic activities affect third parties who are not directly involved in market transactions (Pigou 1920). According to him, Positive externalities include: Education, Research and development, Vaccination programs, technological innovation.

Negative externalities

include: Pollution, Traffic congestion, Noise, environmental degradation. Pigou (1920) argued that externalities cause a difference between private and social costs, resulting in inefficient resource allocation.

2.1 Information Asymmetry

Information asymmetry refers to a situation where one party has more information about the market than the other during a transaction, according to (Akerlof 1970). Akerlof's (1970) famous "Market for Lemons" model confirmed how imperfect information can cause market collapse. Stiglitz and Weiss (1981) further demonstrated that information asymmetry in credit markets leads to adverse selection and credit rationing, therefore restricting investment and economic development.

2.2 Monopoly Power

Monopoly occurs when a single seller dominates a market and can manipulate prices and output (Pindyck & Rubinfeld 2018). Monopolies reduce competition and often produce less

output at higher prices than competitive markets. Schumpeter(1942) argued that monopolies may support innovation, but extreme market absorption can reduce effectiveness.

Market Failures and Economic Development

According to Rodrik(2018) imperfections of the markets can trap countries that have low-productivity equilibrium to have persistent poverty and under development. Acemoglu and Robinson(2012) demonstrate that weak institutions strengthen market failures by preventing effective correction mechanisms. Empirical studies showed that countries with stronger institutions and effective policies are likely to manage market failures more successfully, resulting in higher economic development and improve living standards(North 1990 Hall & Jones 1999).

3.0 EMPIRICAL LITERATURE REVIEW

3.1 Public Goods and Economic Development

Public goods are among the most important determinants of economic growth because they provide the necessary support for productive economic activities. Samuelson(1954) argued that public goods are characterized by non-rivalry and non-excludability, which means one person using it does not reduce the person's ability to use it therefore, making private institutions inefficient to provide them. Therefore, governments play a central role in supplying infrastructure, education, healthcare, and security services. Barro(1990) developed an endogenous growth model demonstrating that productive government expenditure positively influences long-run economic growth. According to him, Investments in roads, electricity, communication systems, and education increase private sector productivity and stimulate economic expansion. Similarly, Aschauer(1989) found out that there was a strong positive relationship between public infrastructure investment and economic productivity in the United States. The study revealed that public capital contributes extensively to private-sector output growth. Calderón and Servén(2004), used data from more than 100 countries, and established that infrastructure development promotes economic growth and reduces income inequality. Countries with better transportation and communication networks are likely to experience higher rates of industrialization and investment. According to Straub(2008) good infrastructure improves market accessibility and lowers transaction costs. The study concluded that global south economies can achieve important economic gains through increasing public investment in infrastructure. In Sub-Saharan Africa, inadequate public infrastructure remains a major constraint to development. Fafchamps(2004) found out

that poor transportation systems and unreliable electricity increase production costs and reduce competitiveness among firms, which may reduce quality of goods. Reinikka & Svensson (2002) reported that power shortages lower productivity and profitability among enterprises.

In addition, public education contributes to economic development by attracting human capital formation. Becker (1993) argued that education increases labor productivity and promotes technological adoption etc. Lucas (1988) further argued that if there is investments in human capital it will generate positive externalities that promotes economic growth. Hanushek and Woessmann (2008) found out that educational quality rather than quantity is a critical determinant of long-run economic performance. Countries with high-quality education systems tend to achieve faster technological progress and greater productivity growth than with low quality education system. Healthcare is another important public good influencing economic development. According to Bloom, Canning and Sevilla (2004) when there is healthier population there will be more productive and capability of participating in effectively in economic activities. Improved health outcomes increase labor supply and reduce absenteeism, therefore contributing to economic growth. Overall, empirical evidence strongly suggested that public goods play a critical role in promoting economic growth and development through improved productivity, investment, innovation and human capital accumulation.

3.2 Externalities and Economic Development

Pigou (1920) defined externalities as costs or benefits imposed on third parties that are not reflected in market prices.

Positive Externalities

Positive externalities may be define as an economic benefit enjoyed by third party who is not directly involved in an economic transaction or action e.g getting vaccine that stops disease spread, or getting education that helps society, innovation, research and development and public health programs are common examples. Romer (1986) argued that knowledge spillovers comprise a major basis of endogenous economic growth. Ideas and technological innovations generate benefits that expand beyond the original creators, therefore increasing production across the economy. Arrow (1962) introduces the concept of learning-by-doing and demonstrated that production experience creates knowledge spillovers that improve productivity over time. Jaffe, Trajtenberg, and Henderson (1993) found out that strong

evidence of geographic knowledge spillovers their study showed that whenever firms are located near research institutions they benefit from innovation which is generated by neighboring organizations. According to Audretsch and Keilbach(2004)entrepreneurship capital contributes extensively to economic development through innovation and technological diffusion.

Porter(1998) argued about the role of industrial clusters in generating positive externalities.According to him Clusters facilitate information sharing,technological learning and access to specialized labor markets, therefore promoting competitiveness.Moretti(2004)also found out that increase in education attainment generate positive spillovers that improve wages and production across industries.These findings suggest that positive externalities contribute extensively to economic development by enhancing innovation, productivity, and technological advancement.

3.3 Negative Externalities

Negative externalities are define as impose social costs that are not borne by producers or consumers and impose on third parties who are not involved in an economic transaction.Environmental pollution represents one of the most significant negative externalities affecting development. Pigou(1920)argued that when there is pollution it cause market ineffectiveness because polluters do not accept the full social costs of their activities. Stern (2007)also identified climate change as one of the largest market failures in human history.According to the Stern Review, environmental deprivation reduces agricultural production,increases health costs, and threatens long-term economic growth.Tietenberg and Lewis(2018)argued that pollution contributes to resource depletion and ecosystem destruction,thereof redecreasing future production.The World Health Organization (2021) projected that millions of premature deaths annually are associated to environmental pollution,which result in significant economic losses.Traffic congestion is another major negative externality.Prud'homme and Lee (1999) found out that clogging reduces labor production by increasing commuting times and transportation costs.Collier(2007)argued that conflict and insecurity deject investment and decrease economic growth.According to Acemoglu and Robinson (2012)weak institutions often increase negative externalities by preventive governments ability to implement policy and guard property rights.The empirical evidence therefore indicates that negative externalities decrease economic welfare and hamper development by escalating costs and decreasing production.

3.4 Information Asymmetry and Economic Development

Information asymmetry occurs when one party possesses more information than another during economic transactions (Akerlof 1970). Akerlof's (1970) "Market for Lemons" model argued that inadequate information can cause market failure. In markets where buyers cannot differentiate between high-quality and low-quality products, in the market, good-quality products may vanish altogether. Stiglitz and Weiss (1981) expanded this analysis to financial markets and found out that information asymmetry leads to credit rationing. Banks often lack complete information about borrowers' risk profiles and therefore restrict lending. Credit rationing extremely affects small and medium enterprises (SMEs) restraining investment and innovation (Beck, Demirgüç-Kunt, & Levine (2005)). Greenwald and Stiglitz (1986) argued that imperfect information is enveloping in modern economies and leads to justification of government involvement. Joseph Stiglitz (2002) argued that information failures are mainly significant in global south economies where financial markets and regulatory institutions are weak. According to World Bank (2020), limited access to information reduces investment opportunities and hinders entrepreneurial activities.

3.5 Monopoly Power and Economic Development

Monopoly power is the ability of a single business to set market prices and control supply without losing customers to rivals. It represents another significant source of market failure. According to Pindyck and Rubinfeld (2018) monopolies possess the ability to influence prices and output because of limited competition. Harberger (1954) introduces the concept of deadweight loss of total economy efficiency and social welfare that occurs when a market operates away from its competitive equilibrium. He argued that monopolies produce less output and charge higher prices than competitive markets. Tirole (1988) argued that monopolies often reduce consumer welfare by restricting output and discouraging innovation. However, Schumpeter (1942) argued that monopoly profits may support innovation by providing incentives for research and development. Empirical evidence in general suggests that excessive market concentration reduces economic efficiency. Nickell (1996) found out that competition extensively improves production among firms.

Aghion et al. (2005) on the other hand concluded that competition enhances innovation by encouraging firms to improve efficiency and adopt new technologies. Djankov et al. (2002) observed that excessive barriers to entry often create monopolistic structures that hamper entrepreneurship and economic development. Therefore, while monopolies may occasionally

facilitate innovation, unnecessary market power normally reduces economic welfare and slows economic expansion.

3.6 Market Failures in Developing Economies

Global south economies experience more severe market failures because of institutional weaknesses, inadequate infrastructure and limited regulatory capacity. North (1990) argued that institutions contribute to a central role in influencing economic performance. Weak institutions enhance transaction costs and reduce investment incentives. Rodrik Subramanian & Trebbi (2004) found out that institutional quality is a solution determinant of long-run economic growth. Acemoglu and Robinson (2012) emphasized that inclusive institutions encourage development by facilitating innovation and protecting property rights. According to Todaro and Smith (2021) many global south economies face continual market failures in education, healthcare, finance, and environmental management. The World Bank (2020) reported that infrastructure deficits cost African economies approximately two percentage points of annual GDP growth. On the other hand the African Development Bank (2022) identified inadequate infrastructure as one of the major constraints to industrialization and economic transformation in Africa.

therefore, addressing market failures remains essential for achieving sustainable development.

4.0 THE THEORETICAL REVIEW

Theoretical review provides the groundwork for understanding how market failures affects economic development and growth. Economic theories explain why markets sometimes fail to allocate resources efficiently and how government involvement can improve economic outcomes. This article is based on five major theories: Welfare Economics Theory, Public Goods Theory, Externality Theory, Information Asymmetry Theory, and Institutional Theory. According to Kerlinger and Lee (2000), theories are used to give a systematic explanation of how relationships among variables occurs and how it helps scholars understand and predict economic phenomena. On the other hand, Creswell and Creswell (2018) argue that theoretical frameworks guide the formulation of research questions and interpretation of findings. The theories reviewed in this article explain the mechanisms through which market failures influence production, investment, innovation, income distribution and economic growth.

4.1 Welfare Economics Theory

Welfare Economics Theory emerged from the works of Arthur Cecil Pigou (1920), he sought to explain how economic activities affect social welfare. Welfare economics focuses on evaluating economic policies and market outcomes based on their impact on societal well-being. Pigou (1920) argued that markets do not always produce socially most favorable outcomes because private decision-makers often ignore social costs and benefits. This deviation creates inadequacy that reduce overall welfare. According to Pareto (1906) contributed significantly to welfare economics through the concept of Pareto efficiency. According to Pareto, an allocation is efficient if no individual can be made better off without making another individual worse off. Samuelson (1947) later expanded welfare economics by developing conditions for optimal resource allocation in competitive markets.

4.2 Assumptions of Welfare Economics Theory

The theory assumes that:

Individuals act rationally to maximize utility it is a concept in economics and decision theory meaning that people make choices that they believe will bring them the highest possible satisfaction. Firms seek to maximize profits.

Competitive markets allocate resources efficiently. Social welfare can be improved through efficient allocation of resources. Government intervention is justified when markets fail.

4.3 Relevance to Market Failures

Welfare Economics Theory forms the basis for understanding market failures because it identifies situations where market outcomes are socially inefficient. According to Stiglitz (2000) market failures result in a loss of social welfare because resources are not allocated optimally. Examples include pollution, monopoly pricing, and under-provision of public good.

4.4 Criticism of Welfare Economics Theory

Despite its importance, Welfare Economics Theory has faced criticism.

Hayek (1945) argued that governments often lack sufficient information to determine socially most favorable outcomes. Buchanan (1987) further argued that government interventions may create government failures that worsen economic inefficiencies. Nevertheless, Welfare Economics Theory remains one of the most significant frameworks for analyzing market failures and public policy.

4.5 Public Goods Theory

Public Goods Theory was developed by Samuelson(1954) to explain why private markets often fail to provide certain goods efficiently. According to Samuelson(1954), public goods possess two key characteristics:

Nonrivalry, Nonexcludability e.g

Defense, Public roads, Street lighting, Judicial systems, Environmental protection, Because individuals can benefit without paying, private firms have limited incentives to provide such goods.

Main Propositions

Samuelson (1954) argued that, Markets underprovide public goods. Free-rider problems reduce private provision. Therefore government intervention is necessary. Musgrave(1959) further emphasized that one of the primary functions of government is to allocate resources toward public goods. Relationship with Economic growth. Public goods contribute directly to economic growth. Barro(1990) found out that productive government expenditure stimulates long-run economic growth. Aschauer(1989) demonstrated that infrastructure investment enhances private sector productivity. On the other hand, Calderón and Servén(2004) concluded that transportation and communication infrastructure significantly promote development. The theory therefore explains why inadequate provision of public goods represents a major market failure.

5.0 Criticism of Public Goods Theory

Coase (1960) argued that some public goods can be efficiently managed through private arrangements. Ostrom(1990) demonstrated that communities can successfully govern by sharing resources without direct government intervention. Despite these criticisms, Public Goods Theory remains extremely significant in explaining infrastructure and public service inefficiencies in global south economies.

5.1 Externality Theory

Introduced by Pigou(1920) in The Economics of Welfare. Pigou argued that market transactions often affect third parties who are not involved in economic exchanges. According to him these effects may be: Positive externalities, education, Innovation, Vaccination, Research and development.

5.2 Negative Externalities includes

Pollution, Traffic congestion, Environmental degradation, Noise. According to Pigou (1920) externalities cause a variance between private and social costs or benefits.

5.3 Assumptions of externality Theory

Markets fail to account for all social costs and benefits. This economic decisions affect third parties this leads Market outcomes to become socially inefficient therefore Government involvement helps in improving economic welfare. Romer (1986) demonstrated that knowledge spillovers contribute to technological advantages and economic growth. Lucas (1988) found out that when there is human capital accumulation there is generation of positive externalities that promotes productivity. On the other hand environmental deprivation reduces production and economic welfare (Stern 2007).

The theory therefore explains how both positive and negative spillovers influence economic growth.

5.4 Criticism of Externality Theory

Coase (1960) challenged Pigou's emphasis on government intervention.

According to Coase theorem he suggested that private bargaining can resolve externalities when property rights are clearly defined and transaction costs made low. However, in many global south economies transaction costs are high, making government involvement important. **Information Asymmetry Theory**

Information Asymmetry Theory was developed by Akerlof's (1970) in his seminal work The Market for Lemons. Akerlof argued that markets may fail when one party possesses more information than another in a transaction, e.g: Credit markets, Insurance markets, Labor markets. Consumer product markets. Information asymmetry creates uncertainty and inefficiency.

6.0 Adverse Selection

It occurs before transactions take place this happens when one party uses hidden information to their benefits before an agreement is made.

Akerlof (1970) argued that buyers cannot distinguish between high-quality and low-quality products. As a result, those with good-quality products takes their products out of the market leaving only low quality products in the market. **Moral Hazard** it occurs after transactions. It occurs when one party changes their behavior after a contract is signed knowing the other cannot observe their actions. Individuals may engage in risky behavior because the costs are

borne by others. Stiglitz and Weiss (1981) argued that information asymmetry often results in credit rationing.

6.1 Information asymmetry affects:

Financial inclusion which is the availability and equality of opportunities to access formal financial services, Investment-refers to the allocation of money time or efforts into an asset or venture with the expectation of generating a profit income or another valuable advantage in the future primary goal is to grow wealth over time and beta inflation through value appreciation or regular payout, entrepreneurship and Innovation is the practical implementation of a new or significant improved Idea product, services or process that creates tangible value. According to Beck et al. (2005) information failures restrict access to finance among SMEs. Greenwald and Stiglitz (1986) argued that imperfect information is one of the primary causes of market inefficiency.

6.2 Criticism

According to Varian (2014) Some economists argue that technological advancements and digital platforms are reducing information asymmetries.

However, information failures continue to spread in global south economies.

6.3 Institutional Theory

Institutional Theory was developed by North (1990). North defined institutions as: "The rules of the game in society." They structure interactions to reduce uncertainty. According to him rules are of two types, formal rules, written laws property rights, contract and constitution informal rules, unwritten customs, tradition, taboos and ethical codes. According to North (1990) institutions reduce uncertainty and facilitate economic interactions.

6.4 Institutional Theory assumes that:

According to Rowan and Meyer (1977) argued that organization adopt certain rules and practices because society expects them to. Rules and norms are deeply embedded in our minds people do not always make purely logical choices, instead, they act based on habits culture and social expectations. DiMaggio and Powell (1983). According to Scott (2008) organization become alike in the three main ways. **coercive** –legal rules or mandates force organization to act in certain way, **mimetic** –when companies are unsure what to do they copy successful peers. **Normative** –professional standards and education lead people to adopt the same accepted practices. According to this authors Institutions influence the extent to which market failures occur. Acemoglu and Robinson (2012) argued that inclusive institutions support innovation and economic growth.

Weak institutions often worsen: Corruption, Monopoly power, information asymmetry and environmental degradation. Hall and Jones (1999) found out that institutional quality explains differences in production across countries.

Criticism

Williamson (2000) argued that institutional reforms often require long periods before producing quantifiable outcomes. In spite of this limitation, Institutional Theory remains highly influential in global south economics.

6.6 Theories Supporting the Study

The following theories support the study

Welfare Economics Theory (Pigou, 1920)

Explains how market failures reduce social welfare and economic efficiency. He shifted the focus of economics from simply observing wealth generation to understanding how markets impact human well-being and social satisfaction.

Public Goods Theory (Samuelson, 1954)

Samuelson revolutionized public finance in his landmark 1954, the pure theory of public expenditure, in just two and half pages he provided the first rigorous mathematical definition of a public good which he initially termed a collective consumption of good, and establish why free markets fail to provide the efficient.

Externality Theory (Pigou, 1920)

In his book the economic welfare Arthur C. Pigou became the first economist to formally analyze externalities. He established that the free market fails when private actions impose hidden costs or benefits on uncompensated third parties. He centers on fundamental gaps between two concepts: marginal private Net product where the financial cost or benefits experienced directly by the person or business taking action. Marginal social Net product which is the total cost or benefits experienced by all of society, including innocent bystanders.

Information Asymmetry Theory (Akerlof 1970)

Institutional Theory (North, 1990)

Douglas North's book institutional change and economic performance, explain how rules of the game shape a country's wealth. North

Defines institutions as humanly made and devised rules that structure interaction and organization as the players. Good rules lower the cost of doing business and promote growth.

7.0 Research Gaps

Theoretical Gap

From the above scholars most studies rely on a single theoretical framework. Limited studies integrate Welfare Economics, Public Goods Theory, Externality Theory, Information Asymmetry Theory, and Institutional Theory simultaneously.

Contextual Gap

Akleof(1970) classical models symmetric information assume formal market environment governed by paper trail, credit histories and written contracts. In developing economies 60% to 80% of economy activity occurs in the informal sector. Most empirical studies focus on developed countries. The literature lack a robust framework for how informational asymmetries are negotiated when there are no formal regulatory channels or safety.

Limited evidence exists for low-income economies, particularly in Africa.

Methodological Gap

According to Acemoglu, D. Johnson(2005) majority of foundational literature investigating economic and institutional failures relies on macro level cross sectional country averages e.g aggregate national GDP verse world wide governance indicators this creates major methodological flaws.

Longitudinal and panel data studies remain limited.

Empirical Gap

According to Madina. L. scheider, F.(2018) There is severe shortage of granular empirical micro data tracking how failures such as credit constraints asymmetry information or contract enforcement failures operates within the informal economy because unregistered firms do not report to government or formal tax database they are systematically omitted from empirical datasets traditional empirical literature treats developing markets as uniform formal structure leaving a massive data void regarding shadow and rural economies. Most studies examine specific market failures independently, and few studies investigate their combined effects on economic development.

Policy Gap

According to Pritchett L(2003) & Rodrik D(2007) Mainstream policy frameworks design by global financial institutions historically suffer from one size fits all blue print approach. Policy literature frequently prescribes such as rigid anti trust laws, complex carbon taxes or formalized financial disclosures without accounting for the fact that developing states lack administrative funding bureaucratic independence or judicial enforcement capacity to execute them. This leads to policies that exist in papers but completely fail to stimulate development

in practice. Limited research evaluates the effectiveness of government interventions in correcting multiple market failures simultaneously.

7.1 RESEARCH METHODOLOGY

Research Philosophy

This article adopts the positivist research philosophy. Which assumes that economic phenomena can be objectively measured and analyzed using scientific methods (Saunders, Lewis, & Thornhill, 2019). According to Creswell and Creswell (2018), positivism is appropriate when researchers seek to establish relationships among variables using empirical evidence. The philosophy is suitable for this study because the effects of market failures on economic development can be quantified through measurable indicators such as GDP growth, investment rates, productivity, employment, and poverty levels.

7.2 Research Design

This article adopts a descriptive and explanatory research design.

Descriptive research enables the researcher to explain the nature and characteristics of market failures, while explanatory research investigates cause-and-effect relationships between market failures and economic development (Kothari, 2004). According to Creswell (2018) explanatory research designs are mainly useful in examining economic phenomena where multiple variables interact to influence development outcome.

According to Wooldridge (2019) argued that secondary data are appropriate for macroeconomic analyses because they provide comprehensive information across countries and time periods.

ECONOMETRIC MODEL

This article employs multiple regression analysis to study the relationship between market failures and economic development.

Gujarati & Porter (2009) argue that regression analysis enables researchers to estimate the magnitude and direction of relationships among variables.

The functional relationship is expressed as:

$$ED = f(PG, EXT, IA, MP)$$

Where:

ED = Economic Development.

PGF = Public Goods Failure.

EXT = Externalities.

IA = Information Asymmetry.

MP = Monopoly Power.

Regression Equation

The econometric model is specified as:

$$[ED = \beta_0 + \beta_1 PGF + \beta_2 EXT + \beta_3 IA + \beta_4 MP + \varepsilon]$$

Where:

β_0 = Constant term.

β_1 = Coefficient of Public Goods Failure.

β_2 = Coefficient of Externalities.

β_3 = Coefficient of Information Asymmetry.

β_4 = Coefficient of Monopoly Power.

ε = Error term.

7.3 POLICY IMPLEMENTATION

According to Aschauer(1989)infrastructure investment significantly improves productivity. Similarly,Calderón and Servén (2004) found out that infrastructure development contributes to economic growth and poverty reduction. Improved public goods reduce transaction costs and promotion.

Strengthening Institutions

Institutional quality determines the effectiveness of policies aimed at correcting market failures.North(1990)argued that institutions reduce uncertainty and facilitate economic interactions. Acemoglu and Robinson (2012) further emphasized that inclusive institutions promote innovation and investment.

7.4 CONCLUSION

Market failures represent one of the most significant obstacles to economic development.This article has demonstrated that public goods failure, externalities, information asymmetry, and monopoly power distort resource allocation and reduce social welfare. Theoretical evidence from Welfare Economics Theory,Public Goods Theory Externality Theory,Information Asymmetry Theory,and Institutional Theory confirms that market failures prevent economies from achieving efficient outcomes. Empirical studies indicate that inadequate public goods provision,environmental degradation, imperfect information, and excessive market concentration hinder investment, productivity, innovation, and growth. The findings further reveal that global south economies are particularly vulnerable because of weak institutions

and limited regulatory capacity. Therefore correcting market failures remains essential for achieving sustainable economic development.

8.0 RECOMMENDATIONS

Based on the findings the study recommends:

Increased Public Investment Governments should prioritize infrastructure, education, healthcare, and communications systems. Environmental Sustainability effective environmental regulations should be implemented to reduce pollution and resource depletion. Innovation Promotion Policies encouraging research, technology transfer, and entrepreneurship should be strengthened.

Financial Market Reforms, governments should improve information systems and expand access to credit. **Competition Policies** Strong antitrust laws should be enforced to prevent monopolistic behavior. Institutional Reforms, governments should strengthen governance, accountability, and regulatory effectiveness. Inclusive Development Policies Economic policies should focus on reducing inequality and improving living standards.

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