



ECONOMICS TOPIC VIDEOS

Unit 3 Micro – 16 Mark Q

Government Intervention and Competition

Hosted by Geoff Riley

16 Mark Unit 3 Data Question

- KAA 8 marks
- Evaluation 8 marks
- 3 KAA points – define, apply, explain (use diagram)
- 3 Evaluation points – apply, explain to support
- Question normally says "assess" – but it will always require you to use evaluation + a suitable analysis diagram
- Some questions will require specific use of game theory as part of the answer

“Assess ways in which government intervention might promote competition within markets” (16 marks)

- Define market competition:
 - Price and non-price competition between businesses in search of market share, higher revenues and profits
- “Competitive” markets:
 - Relatively low concentration ratio, fragmented
 - Insignificant entry and exit barriers (contestable)
 - Absence of dominant monopoly power
 - Prices set at competitive levels, absence of collusion
- Government intervention can be
 - **Direct** – competition policy, industry regulation
 - **Indirect** – influencing consumer choice, trade policies

“Assess ways in which government intervention might promote competition within markets” (16 marks)

1. Liberalisation of a market:

- Lowering entry barriers for new businesses
- Break-up of monopolies e.g. ending legal monopoly
- Privatisation of an industry/ competitive tendering
- Reductions in import tariffs and ending import quotas

2. Regulation of monopoly / oligopoly + information policy

- Tough responses to anti-competitive behaviour e.g. price-fixing cartels, market sharing agreements
- Potential to block monopolistic mergers/takeovers
- Price capping to control supernormal / monopoly profits
- Improve flow of information to consumers (reduce confusion)

3. Subsidies and taxation

- Financial support to encourage small businesses / start-ups
- Subsidies to encourage new entrants e.g. in renewable energy
- Tax relief on research/patents to encourage creative destruction

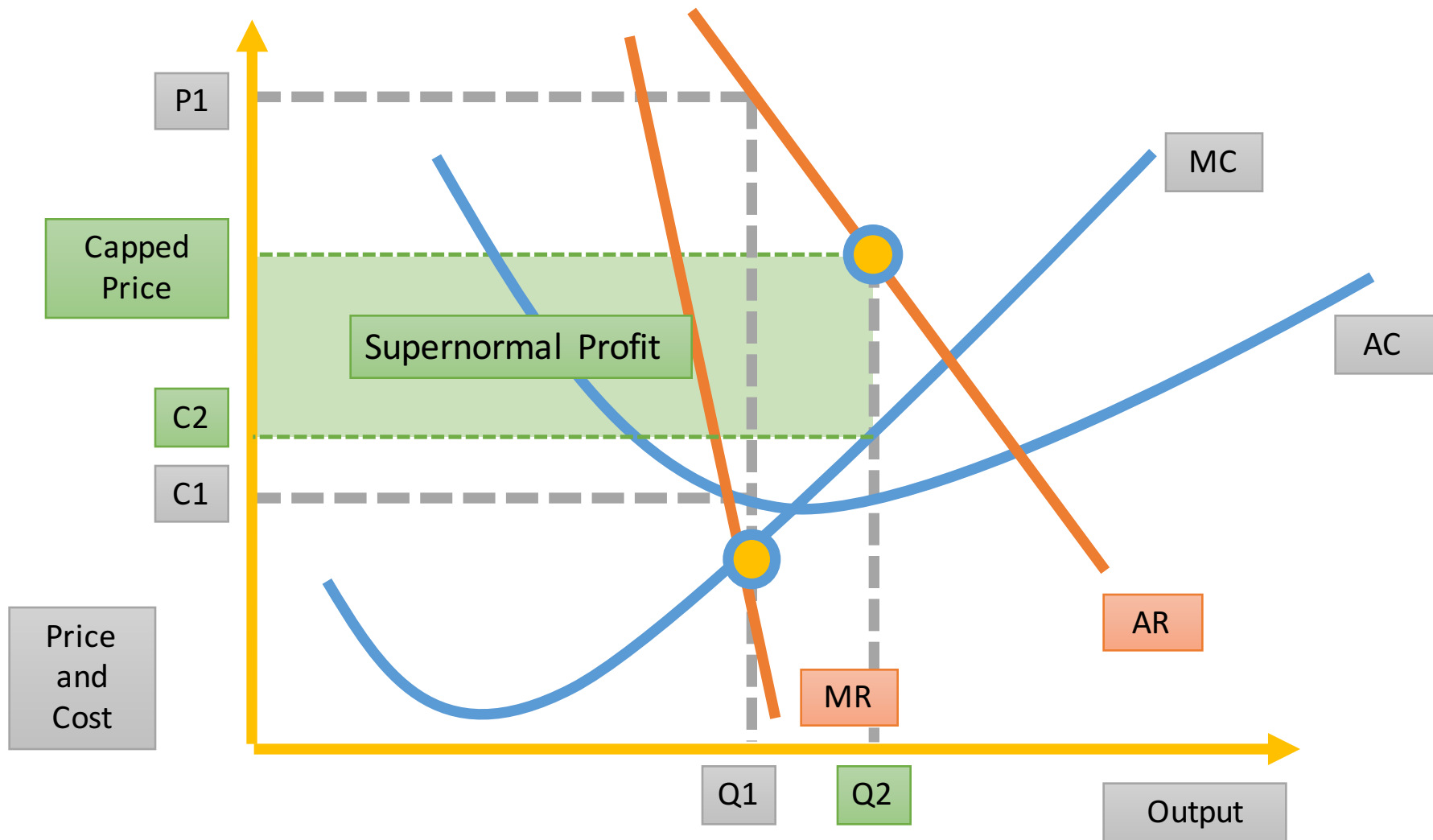
“Assess ways in which government intervention might promote competition within markets” (16 marks)



“Assess ways in which government intervention might promote competition within markets” (16 marks)

1. Limits to effectiveness of intervention
 - Some industries are more competitive than others
 - Natural monopoly argument – high minimum efficient scale
 - Consumer resistance – low churn rate e.g. in retail banking
 - Privatisation does little to promote competition
 - What matters is contestability of markets not ownership
2. Subsidies, taxes and price capping can also create entry barriers allowing firms to build & exploit market power.
 - State aid to keep alive loss-making airlines – distorts competition
 - Price caps might mean higher-cost new entrants make a loss and might be forced to leave the industry – causing less competition
3. Government might be best to allow market forces to promote competition – many monopolies do not survive in the face of innovative challenger brands/businesses

Price capping can reduce monopoly profits of existing firms but might limit competition from new entrants



“Assess ways in which government intervention might promote competition within markets” (16 marks)

- Government can be a market-maker
 1. Competitive tendering
 2. Pollution trading
- Competitive requires active consumers who are prepared to switch their demand
- Government might be better suited to “protecting” competition e.g. via competition policy rather than “promoting” it e.g. via privatization
- Policies that promote trade, innovation and small businesses are likely to be most effective in long run
- Technologies are reducing some entry barriers e.g. the rise of Uber, AirBNB and other platform businesses



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