Past-paper walk-through

Reasons for government intervention in markets ▪ 3.1

eXercise

Questions in this set

- 9708/13 N25 Q16 ▪ 1 mark
- 9708/14 N25 Q29 ▪ 1 mark

Question 16

9708/13 N25 ▪ Q16 ▪ 1 mark

16 A government intervenes in the market for good X. It fixes a minimum price above the market equilibrium.

Which situation explains why the government would do this?

	good X	reason for intervention
A	demerit good	to decrease consumption
B	demerit good	to increase consumption
C	merit good	to decrease consumption
D	merit good	to increase consumption

Solution 16

Answer: **A**

Why

- A minimum price above equilibrium raises the price producers receive.
- The government would do that to support producers' incomes, or to discourage consumption.
- It creates a surplus, which the government usually has to buy up.

Question 29

9708/14 N25 ▪ Q29 ▪ 1 mark

29 In which economic context is the term ‘protectionism’ usually applied?

A the protection of consumers against excessive prices

B the protection of employees against exploitation by multinational companies

C the protection of local producers against international competitors

D the protection of the foreign exchange rate against currency speculators

Solution 29

Answer: **C**

Why

- Protectionism means protecting *domestic producers* from foreign competition.
- The instruments are tariffs, quotas, subsidies and embargoes.
- It is not about protecting consumers or employees – those are consumer protection and employment law.