

3.2 Government microeconomic intervention: methods

Name: _____ Class: _____ Date: _____

Total: 25 marks

KEY WORDS subsidy 补贴 • indirect tax 间接税 • minimum price 最低限价
• buffer stock 缓冲库存 • stock 存量

Objective

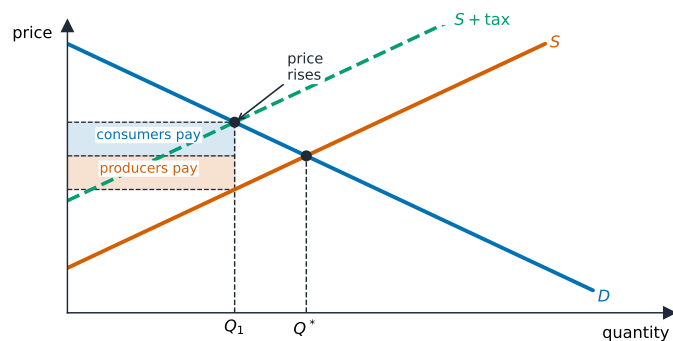
Build the skills to answer exam questions on the **methods and effects of government intervention** 政府干预的方法与效果 — **indirect taxes** 间接税, **subsidies** 补贴, **maximum and minimum prices** 最高/最低限价, **buffer stocks** 缓冲库存, **regulation** 管制, and **government failure** 政府失灵.

You must be able to:

- draw the effect of an indirect tax and a subsidy
- explain maximum/minimum prices and the **incidence of a tax** 税收归宿
- analyse government failure

1 Worked examples

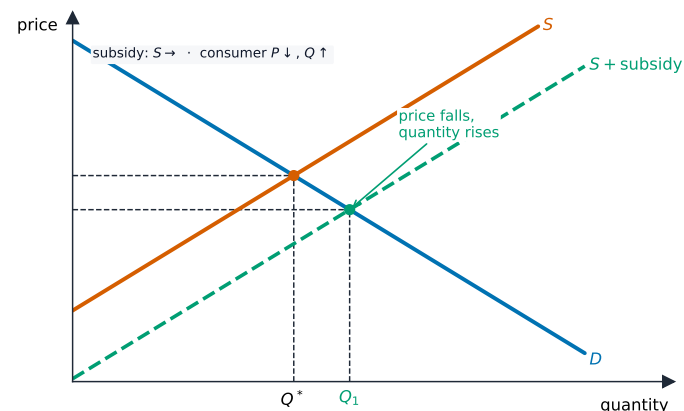
■ Taxes, subsidies and price controls



tax: S shifts left • incidence split consumers/producers

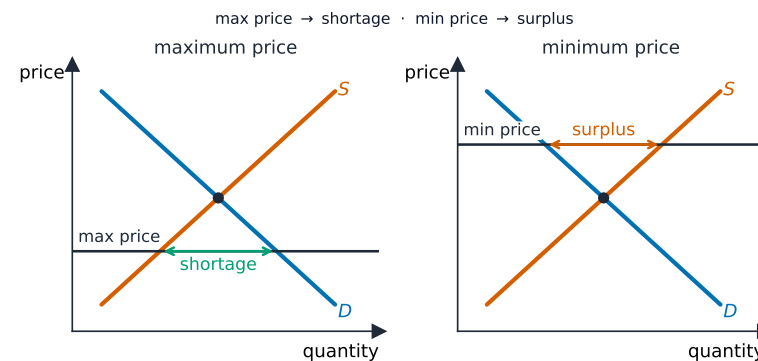
The tax burden is shared between consumers and producers, depending on elasticity

- **Indirect tax** 间接税: shifts supply **left** → higher price, lower quantity (used on demerit goods).
- **Subsidy** 补贴: shifts supply **right** → lower price, higher quantity (used on merit goods).



A subsidy: supply shifts right, price falls and quantity rises

- **Max price** (below equilibrium) → **shortage**; **min price** (above equilibrium) → **surplus**.



Price controls: a maximum price (shortage) and a minimum price (surplus)

- **Tax incidence**: if demand is inelastic, consumers pay most of the tax.
- **Government failure** 政府失灵: intervention makes resource use worse (e.g. a black market).

Answer shapes: an **Explain** [up to 8] answer should use a labelled diagram (AO3); **Discuss** [12] adds a judgement (AO4).

2 Practice

2.1 Define the term *indirect tax*. [2]

2.2 State the effect of a **maximum price** set below the equilibrium price. [1]

2.3 State who bears most of an indirect tax when demand is **inelastic**. [1]

3 Exam-style questions

3.1 A government subsidy to producers will: [1]

- | | |
|---|---|
| A | B |
| C | D |
- A shift supply left, raising the price
B shift supply right, lowering the price
C shift demand right, raising the price
D have no effect on price

3.2 Using a diagram, explain how an indirect tax on a demerit good affects its price and quantity. [8]

3.3 Discuss whether an indirect tax is the best way for a government to reduce consumption of a demerit good. [12]