A-LEVEL ECONOMICS • EXERCISE SHEET

8.1 Government policies to achieve efficient resource allocation and correct market failure

Name: ____________ Class: ________ Date: __________ **Total: 24 marks**

KEY WORDS government failure 政府失灵 • competition policy 竞争政策 • tradable permits 可交易许可证 • subsidy 补贴 • regulation 管制

Objective

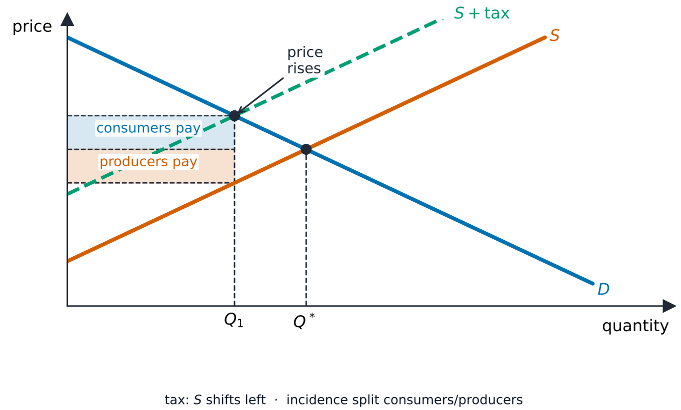
Build the skills to answer exam questions on **government policies to correct market failure** 政府纠正市场失灵的政策 — taxes, subsidies, **tradable permits** 可交易许可证, regulation, state provision, **nationalisation/privatisation** 国有化/私有化, **competition policy** 竞争政策, and **government failure** 政府失灵.

You must be able to:

- describe the policy tools used to correct market failure
- explain competition policy and tradable permits
- analyse government failure

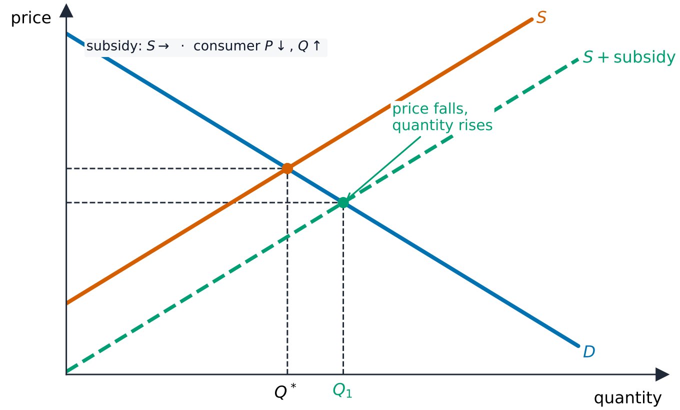
1 Worked examples

■ **Policy tools**



Used on goods with a negative externality (e.g. fuel)

- **Tax** on a negative externality; **subsidy** on a positive externality.



The other tool: a subsidy on a good with a positive externality raises output to the social optimum

- **Tradable permits** 可交易许可证: cap total pollution, firms trade the right to pollute.
- **Competition policy** 竞争政策: block harmful mergers, ban price-fixing, fine abuse of **monopoly power** 垄断势力.
- **Government failure** 政府失灵: intervention worsens resource use (poor information, lags, a black market).

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

2 Practice

2.1 Define the term *tradable permit*. [2]

2.2 State one aim of competition policy. [1]

2.3 Define the term *government failure*. [2]

3 Exam-style questions

3.1 Tradable pollution permits reduce total pollution by: [1]

A banning all pollution
B capping total pollution and letting firms trade the right to pollute
C subsidising polluting firms
D taxing every unit of output equally

3.2 Explain how a system of tradable permits can reduce pollution at the lowest cost. [6]

3.3 Discuss whether government intervention always improves the allocation of resources. [12]