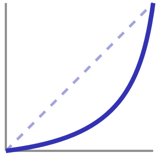
Government Microeconomic Intervention

A-Level Economics ▪ Topic 8

A-Level Economics



What we will cover

1. Correcting market failure
2. Equity vs equality
3. Measuring inequality
4. Redistribution
5. The labour market
6. Minimum wage & wages

inequality side by side

Correcting market failure

indirect tax

subsidy

price control

tradable permits

regulation

stat

Also **nationalisation** 国有化 ↔ **privatisation** 私有化, and **competition policy** 竞争政策 (block mergers, ban price-fixing). Beware **government failure** 政府失灵 – intervention can backfire.

market failure cigarettes

Equity vs equality

a fair outcome is not always an equal one

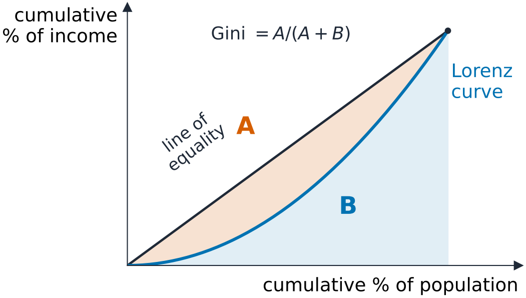
equality
everyone gets
the *same* share

equity
everyone gets a
fair share (not
always the same)

- **equality** 平等 – everyone gets the *same*
- **equity** 公平 – everyone gets what is *fair*

A fair outcome is not always equal. **Income** 收入 is a flow; **wealth** 财富 is a stock of assets.

Measuring inequality



The **Lorenz curve** 洛伦兹曲线 plots income share against population share.

> The more it sags below the line of equality, the higher the **Gini coefficient** 基尼系数 ($0 =$ equal, $1 =$ all to one).

Redistribution

progressive tax 累进税

a higher rate on
higher incomes

benefits 福利金

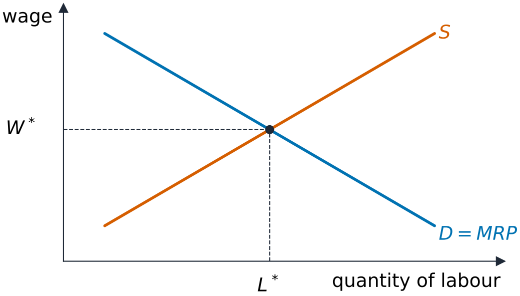
transfers 转移支付
to those in need

state services

free education & health

Redistribution 再分配 moves income to the poor – but wealth is harder to redistribute (it can be hidden or moved abroad).

The labour market



A wage is the price of labour.

- demand is a **derived demand** 派生需求 – from the **MRP** 边际收益产品 (extra revenue per worker)
- supply rises with the wage, skills & conditions

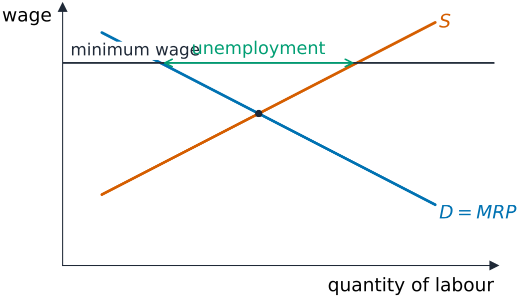
The wage settles where they meet.

Imperfect labour markets

- a **monopsony** 买方垄断 (single buyer of labour) pays below the competitive wage
- a **trade union** 工会 bargains the wage up, but may cut jobs

Wages also differ by **wage differential** 工资差异 & sometimes **discrimination** 歧视.

The minimum wage



A **minimum wage** 全国最低工资 above the market wage raises low pay but can cause some unemployment.

> In a monopsony, a minimum wage can raise *both* the wage and employment.

Worked example – a minimum wage

A minimum wage is set above the equilibrium in a competitive labour market. Analyse the effect.

- Above equilibrium ⇒ firms demand less labour, more workers supply it.
- The gap is excess supply of labour = unemployment.
- Those who keep their jobs gain; those who lose them are worse off ⇒ a real trade-off.
- But in a monopsony the outcome flips: a minimum wage can raise both wages and employment.

> The answer depends on the market structure and on elasticity: inelastic demand for labour ⇒ little job loss. Always say "it depends, because…".

Topic 8 – key takeaways

1 Tools

tax, subsidy, regulation, competition policy

2 Equity

fair $\neq$ equal; income flow vs wealth stock

3 Inequality

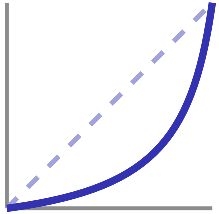
Lorenz curve & Gini; redistribution

4 Labour

derived demand (MRP); monopsony; minimum wage

Check yourself

1. Equity means fair – what does equality mean?
2. A Gini of 0 means what?
3. The demand for labour is what kind of demand?
4. A single buyer of labour is called what?



Answers **1.** everyone gets the same **2.** perfect equality **3.** derived demand **4.** a monopsony