

Government Microeconomic Intervention

A-Level Economics ■ Topic 8

A-Level Economics



Government Microeconomic Intervention

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

1

Market failure

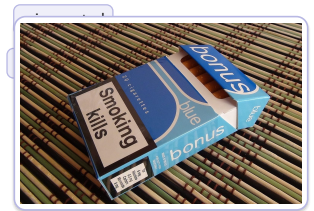
Government Microeconomic Intervention

└ Market failure

Correcting market failure

- indirect tax
- subsidy
- tradable permits
- regulation

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

2

Equity and inequality

Government Microeconomic Intervention

└ Equity and inequality

Equity vs equality

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

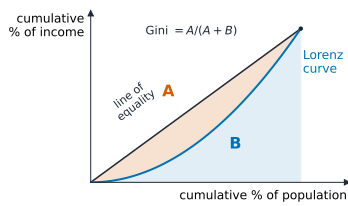
A fair outcome is not always equal. **Income** 收入 is a flow; **wealth** 财富 is a stock of assets.

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)

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

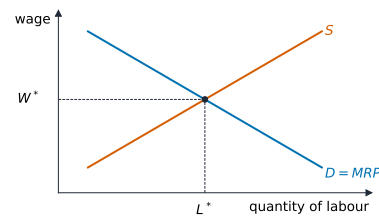
state services

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).

3 Labour markets

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.

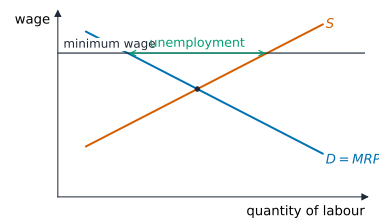
Imperfect labour markets



- 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.

4 Recap

Worked example – a minimum wage

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

- Above equilibrium $\Rightarrow$ 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 $\Rightarrow$ 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 $\Rightarrow$ 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

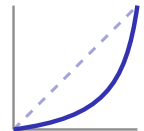
Lorenz curve & Gini; redistribution

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