

# 2.8 The Effects of Government Intervention in Markets

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Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_

Total: 9 marks

## Objective

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Build the skills to answer exam questions on **the effects of government intervention in markets**.

You must be able to:

- analyse a **price ceiling** 价格上限 and a **price floor** 价格下限
- show how a binding price control creates a **deadweight loss** 无谓损失
- analyse the impact of a **per-unit tax** 从量税 on price, quantity, and revenue
- explain how **tax incidence** 税负归宿 depends on relative elasticities

## 1 Worked examples

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Study these first. Each one shows the method for a question type used later.

### ■ Price controls

A **binding ceiling** (below equilibrium) causes a **shortage**; a **binding floor** (above equilibrium) causes a **surplus**. Both reduce total surplus, creating a **deadweight loss**.

### ■ A per-unit tax

Raises the price buyers pay, lowers the price sellers keep, and **reduces the quantity** traded; the gap is government revenue.

### ■ Tax incidence

The **more inelastic** side of the market bears the **larger** share of the tax.

## 2 Practice

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2.1 State the effect of a binding price ceiling. [1]

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2.2 State who bears more of a tax: the more elastic or the more inelastic side. [1]

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**2.3** A \$2 per-unit tax is placed on a good. State its effect on the price buyers pay and the quantity traded. [2]

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### 3 Exam-style questions

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**3.1** A binding price floor causes a [1]

- **A** shortage
  - **B** surplus
  - **C** higher quantity traded
  - **D** no change
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**3.2** A per-unit tax creates a [1]

- **A** gain in total surplus
  - **B** deadweight loss
  - **C** shortage
  - **D** subsidy
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**3.3** A per-unit tax is placed on a good with very **inelastic** demand.

(a) State who bears most of the tax. [1]

(b) State the effect on the quantity traded. [1]

(c) Name the loss of total surplus that the tax creates. [1]

### 4 Go further

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- work through the **2.8 The Effects of Government Intervention in Markets** lesson on the **Learn** page;
  - read the **Supply and Demand** section of the AP Microeconomics handout on the **Know** page.
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## Solutions

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**2.1** it causes a shortage (quantity demanded exceeds quantity supplied).

**2.2** the more inelastic side.

**2.3** the price buyers pay rises and the quantity traded falls.

**3.1 B.**

**3.2 B.**

**3.3** (a) buyers (demand is more inelastic). (b) it falls only a little. (c) deadweight loss.