

2.8 The Effects of Government Intervention in Markets

Name: _____ Class: _____ Date: _____ **Total: 9 marks**

KEY WORDS price floor 价格下限 • price ceiling 价格上限 • deadweight loss 无谓损失
• per-unit tax 从量税 • tax incidence 税负归宿

Objective

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

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

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

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

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]

3 Exam-style questions

3.1 A binding price floor causes a [1]

- A shortage
- B surplus
- C higher quantity traded
- D no change

3.2 A per-unit tax creates a [1]

- A gain in total surplus
- B deadweight loss
- C shortage
- D subsidy

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]

Solutions

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.