

6.4 The Effects of Government Intervention in Different Market Structures

Name: _____ Class: _____ Date: _____

Total: 8 marks

Objective

Build the skills to answer exam questions on **government intervention in different market structures**.

You must be able to:

- analyse how a **per-unit tax** or **subsidy** affects price, quantity, and surplus
- explain how regulation of a **natural monopoly** 自然垄断 can use marginal-cost or average-cost pricing
- describe the aims of **antitrust policy** 反垄断政策
- weigh correcting **market failure** against the costs of **government failure** 政府失灵

1 Worked examples

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

■ Taxes and subsidies

A **per-unit tax** raises price and cuts quantity; a **subsidy** lowers price and raises quantity. Both change consumer and producer surplus.

■ Regulating a natural monopoly

- **Marginal-cost pricing** ($P = MC$) is efficient but may make the firm lose money.
- **Average-cost pricing** ($P = ATC$) lets it break even.

■ Antitrust and government failure

Antitrust policy limits market power and promotes competition. But intervention can itself be costly or misguided — **government failure**.

2 Practice

2.1 State the aim of antitrust policy.

[1]

2.2 State one way a government can regulate a natural monopoly's price. [1]

2.3 Define government failure. [1]

3 Exam-style questions

3.1 Antitrust policy aims to [1]

- **A** create monopolies
 - **B** limit market power and promote competition
 - **C** raise taxes
 - **D** fix exchange rates
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3.2 Setting a natural monopoly's price equal to marginal cost is [1]

- **A** profit-maximizing for the firm
 - **B** allocatively efficient
 - **C** a subsidy
 - **D** a tariff
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3.3 A government breaks up a dominant monopoly and regulates the successor firms' prices.

(a) Name the policy that limits market power. [1]

(b) State one benefit to consumers. [1]

(c) Name the risk that the intervention itself is costly or misjudged. [1]

4 Go further

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- work through the **6.4 The Effects of Government Intervention in Different Market Structures** lesson on the **Learn** page;
 - read the **Market Failure and the Role of Government** section of the AP Microeconomics handout on the **Know** page.

Solutions

2.1 to limit market power and promote competition.

2.2 marginal-cost pricing or average-cost pricing (any one).

2.3 when government intervention itself leads to an inefficient or worse outcome.

3.1 B.

3.2 B.

3.3 (a) antitrust policy. (b) more competition and lower prices. (c) government failure.