

5.1 Business competition, the labour market and government intervention

Name: _____ Class: _____ Date: _____

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KEY WORDS monopoly • minimum wage

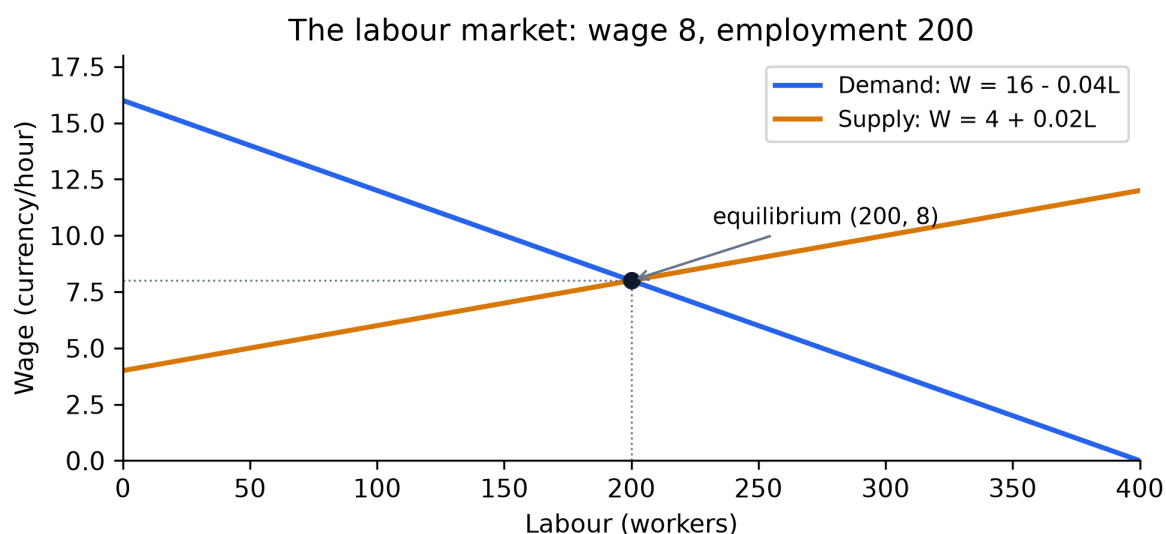
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Objective

Distinguish market structures with the models, apply labour-market equilibrium and shifts, and evaluate the five intervention policies (spec 1.2.4–1.2.6).

1 Key knowledge and worked examples

Structures and intervention. Competition brings efficiency, choice, quality, innovation, lower prices. Monopoly: one dominant firm, price-maker, barriers – model output 40 at price 50 with profit $(50 - 30) \times 40 = 800$. Oligopoly: few large firms, collusion and price wars. Labour market: $S W = 4 + 0.02L$, $D W = 16 - 0.04L$, equilibrium (200, 8); minimum wage 9 → Ld 175 vs Ls 250, 75 unemployed. Intervention: taxation, subsidies, fines, regulation, pollution permits.



Original model; the equilibrium and shifts are worked in the questions.

2 Practice

2.1 State any three advantages of competition to consumers. [2]

2.2 Define monopoly and name any three of its five barriers to entry. [2]

2.3 Define oligopoly and name one feature that separates it from perfect competition. [2]

2.4 Solve the labour model's equilibrium wage and employment. [3]

2.5 Name any four of the eight factors affecting labour supply. [2]

3 Exam-style questions

3.1 (*Original.*) In the labour market S: $W = 4 + 0.02L$ and D: $W = 16 - 0.04L$, the government sets a minimum wage of 9. Calculate the labour demanded and supplied, and the unemployment created. [4]

3.2 (*Original.*) On the monopoly model AR: $P = 70 - Q/2$, MR: $P = 70 - Q$, MC: $P = 10 + Q/2$ with $ATC = 30$ at the profit-maximising output: find the output and price, and calculate the supernormal profit. [4]

3.3 (*Original.*) Explain one advantage and one disadvantage of using a pollution permit scheme rather than a pollution tax. [4]

Solutions

2.1 Any three of: lower prices; greater choice; better quality; innovation; efficiency (lower costs passed on).

2.2 A market dominated by one firm (with a unique product, a price-maker). Barriers (any three): legal barriers; patents; marketing budgets; technology; high start-up costs.

2.3 A market dominated by a few large firms. Separating feature (any one): different products; barriers to entry; collusion; price or non-price competition between interdependent giants.

2.4 $4 + 0.02L = 16 - 0.04L$ gives $0.06L = 12$, so $L = 200$ workers and $W = 4 + 0.02 \times 200 = 8$ per hour.

2.5 Any four of: population size; migration; age distribution; retirement age; school-leaving age; female participation; skills and qualifications; mobility.

3.1 At $W = 9$: demand $16 - 0.04L = 9$ gives $L_d = 175$; supply $4 + 0.02L = 9$ gives $L_s = 250$. Unemployment $= 250 - 175 = 75$ workers – the minimum wage sits above equilibrium, so supply exceeds demand.

3.2 $MR = MC$: $70 - Q = 10 + Q/2$ gives $60 = 1.5Q$, so $Q = 40$; price on AR: $P = 70 - 20 = 50$. Supernormal profit $= (P - ATC) \times Q = (50 - 30) \times 40 = 800$ per day.

3.3 Permit advantage: the cap FIXES total emissions exactly – the environmental outcome is certain however firms respond, and firms with low clean-up costs sell permits to firms with high ones (cheapest abatement happens first). Disadvantage: the price of permits is uncertain and can swing, making business planning hard; setting the cap too loose fails, and initial allocation can reward the biggest past polluters – a tax instead fixes the PRICE per unit and is simple to collect, but leaves the total uncertain.

Local review guidance: both labour quantities before the unemployment figure; the monopoly chain $MR = MC \rightarrow$ price on AR $\rightarrow$ profit rectangle; (R1) the permit-vs-tax contrast is EXACTLY certainty of quantity vs certainty of price. This is authored classroom guidance.