Business competition, the labour market and government intervention

Edexcel IGCSE Economics 4EC1 sections 1.2.4-1.2.6 full package

Business competition, the labour market and government intervention

- weigh the advantages and disadvantages of competition, and of large and small firms;
- explain why some firms grow and others stay small;
- describe the features of **monopoly** and **oligopoly** and judge their effects;

Business competition, the labour market and government intervention (2)

- explain the demand for and **supply of labour** and show the equilibrium wage on a diagram;
- explain the role of **trade unions**;
- evaluate government policies on externalities, competition and the minimum wage.

Competition

- **efficiency**: firms must keep costs low or lose customers;
- **choice** and **quality**: firms offer different products and improve them;
- **innovation** : new products and new ways of making them;

Competition (2)

- **lower prices** for consumers.
- one business dominates the market;
- its product is unique, with no close substitutes;

Competition (3)

- it is a **price maker** : it can set its price;
- **barriers to entry** keep other firms out: legal barriers, **patents** (which protect an invention for 20 years), huge marketing budgets, technology, and high start-up costs.
- a few large firms have most of the sales;

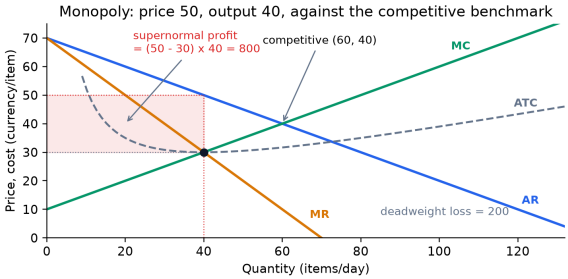
Competition (4)

- products are **differentiated** : each firm makes its brand look different;
- **barriers to entry**;
- firms may **collude** : agree secretly to fix prices or share out the market, which harms consumers;

Competition (5)

- **non-price competition** : advertising, loyalty schemes, design;
- **price competition**, which can become a **price war** .

Figure: Competition



- A monopolist sells 40 units at 50 and earns a profit of 800; competing firms would sell 60 units at 40.
- Match each part of the diagram to the text.

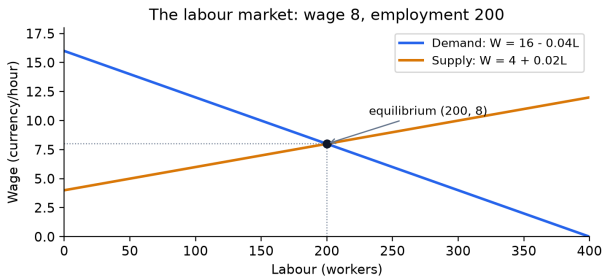
The labour market

- the size of the population and **migration** ;
- the age distribution, and the school-leaving and retirement ages: from January 2025 China began raising its retirement ages step by step, from 60 to 63 for men;
- how many women work;

The labour market (2)

- workers' skills and qualifications;
- how easily workers can move between places and jobs.

Figure: The labour market

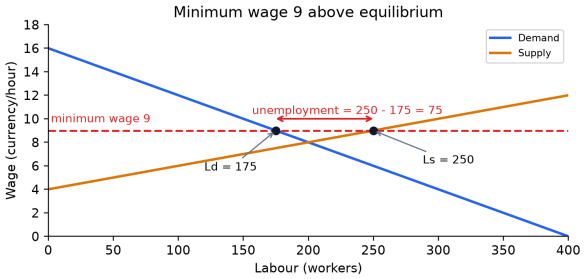


- The wage of 8 and employment of 200 are set where the supply and **demand for labour** cross.
- Match each part of the diagram to the text.

Government intervention

- **Correcting externalities.** The government has five main tools:
- China's national carbon market, started in 2021, gives permits to more than 2,000 power companies.
- **Competition policy.** Governments act to promote competition, limit **monopoly power**, protect consumers and control **mergers** and takeovers.
- In April 2021 China's market regulator fined Alibaba 18.2 billion yuan for forcing sellers not to use rival shopping platforms.

Figure: Government intervention



- At a minimum wage of 9, 250 people want work but firms want only 175: 75 are unemployed.
- Match each part of the diagram to the text.

Data-response practice

- (a) Calculate the percentage increase in the National Living Wage between April 2024 and April 2025. [2]
- (b) A café employs 10 workers on the minimum wage for 30 hours a week each. Calculate the increase in its weekly wage bill. [2]
- (c) With the help of a diagram, explain the possible effect of a minimum wage set above the equilibrium wage. [4]

Data-response practice (2)

- (d) Explain **two** ways the café might respond to the higher wage bill. [4]
- (e) Evaluate whether raising the minimum wage is the best way to reduce poverty. [9]

Common errors

- Defining a **monopoly** only as "one firm". Add its features: a unique product, **price maker**, **barriers to entry**.
- Saying oligopoly firms never compete. They often compete hard on advertising and brands, and sometimes on price.
- Forgetting that demand for labour is derived from demand for the product.

Common errors (2)

- On a labour diagram, labelling the axes price and quantity. Use wage rate and number of workers.
- Saying a minimum wage always causes unemployment. Only one set above the equilibrium wage does.
- Listing government tools without a disadvantage. Every tool has a cost or a weakness.

Key terms

- **Monopoly**: a market dominated by one firm, protected by **barriers to entry**.
- **Oligopoly**: a market dominated by a few large firms.
- **Barrier to entry**: anything that makes it hard for a new firm to join a market.

Key terms (2)

- **Collusion**: firms secretly agreeing to fix prices or share a market.
- **Derived demand**: demand for a factor that comes from demand for the product it makes.
- **Trade union**: an organisation that bargains for workers' pay and conditions.

Key terms (3)

- **Pollution permit**: a right to emit a set amount of pollution that firms can buy and sell.
- **Minimum wage**: the lowest wage employers may legally pay.

Check yourself

- 1.
- Give two benefits of competition for consumers. 2.
- Give two **barriers to entry** that protect a **monopoly**. 3.
- Explain one disadvantage of **oligopoly** for consumers. 4.