

Business competition, the labour market and government intervention

Pearson Edexcel · International GCSE · Economics

Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 1.2.4–1.2.6 in full: business competition – competition, monopoly and oligopoly (10 rows); the labour market (6 rows); and government intervention (4 rows). The labour model is supply $W = 4 + 0.02L$ against demand $W = 16 - 0.04L$; the monopoly model is AR $P = 70 - Q/2$ with MC $P = 10 + Q/2$.

Must-know for this topic:

Family	Relationship
labour market	equilibrium (200 workers, wage 8); shifts move both
minimum wage	at 9: L_d 175 vs L_s 250 $\rightarrow$ 75 unemployed
monopoly	MR = MC at Q 40, price 50, profit $(50 - 30) \times 40 = 800$
intervention	taxation, subsidies, fines, regulation, pollution permits

Competition

Competition advantages (1.2.4a): EFFICIENCY (firms must cut costs to survive), CHOICE, QUALITY, INNOVATION and LOWER PRICES for consumers; the economy gains allocated resources. Disadvantages: duplicated capacity, and firms may cut corners to undercut. Large firms exploit economies of scale, branding and finance, but can suffer diseconomies and lose touch with customers; small firms are flexible and personal but lack scale and bargaining power (1.2.4b). Growth of firms (1.2.4c): government regulation (constrains or enables), access to finance, economies of scale, the desire to spread risk, and the desire to take over competitors. Firms stay small (1.2.4d): the size of the market, a NICHE market's nature, lack of finance, and the entrepreneur's aims (control, lifestyle).

A **monopoly** is a market dominated by one firm (1.2.4e) – features: one business dominates, unique product, a PRICE-MAKER, and barriers to entry: legal barriers, patents, marketing budgets, technology, high start-up costs (1.2.4f). Advantages (1.2.4g): economies of scale may lower unit costs, dynamic innovation from large profits, and a stable supplier. Disadvantages: higher prices and lower output than competition, restricted choice, possible X-inefficiency, and little pressure to innovate. Model: with AR $P = 70 - Q/2$ and MC $P = 10 + Q/2$, the monopolist sets MR = $70 - Q$ equal to MC: $Q_m = 40$, price = 50 on the AR curve; with ATC = 30 at that output, supernormal profit = $(50 - 30) \times 40 = 800$ per day – against the competitive benchmark (60, 40), a deadweight loss of 200.

An **oligopoly** is a market dominated by a few large firms (1.2.4h) – features: few large firms, DIFFERENT products, barriers to entry, COLLUSION (against the

consumer's interest), non-price competition and price competition (1.2.4i). Advantages (1.2.4j): choice through differentiation, innovation funded by large profits, and economies of scale. Disadvantages: collusion and CARTELS fixing high prices; PRICE WARS that destroy profit and can drive firms out.

The labour market

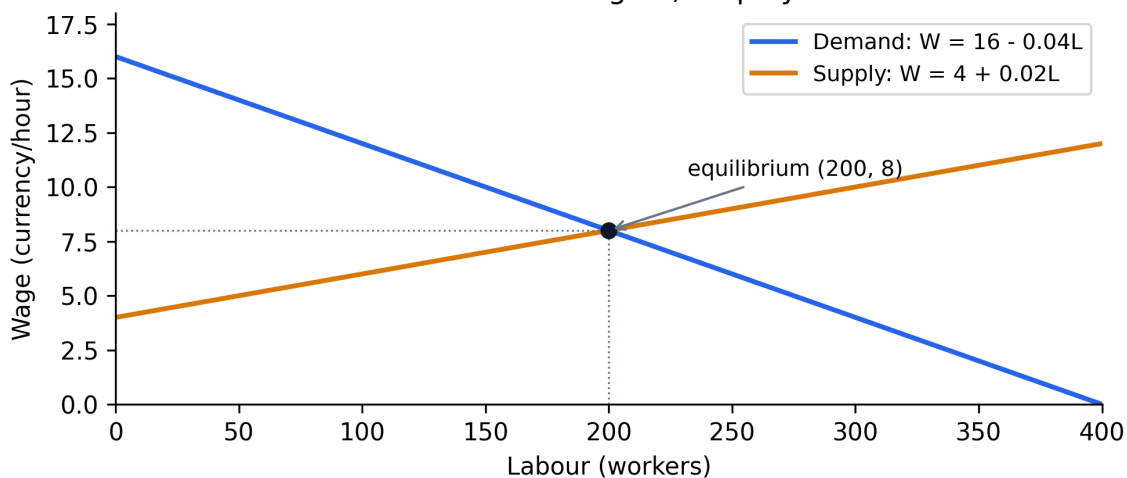
The demand for labour (1.2.5a) is DERIVED from demand for the final product; it is affected by the availability of substitutes (machines) and the productivity of the workforce. The supply of labour (1.2.5b) responds to population size, migration, the age distribution, retirement and school-leaving ages, female participation, skills and qualifications, and geographical/occupational mobility. The QUANTITY and QUALITY of labour matter to business (1.2.5c); education and training raise **human capital**

and labour quality (1.2.5d). The labour diagram (1.2.5e): supply $W = 4 + 0.02L$ meets demand $W = 16 - 0.04L$ at (200, 8) – wage 8, employment 200; a shift in demand (product demand rising) raises both; a shift in supply (migration) raises employment and lowers the wage. **Trade unions** bargain for better working conditions and higher wages (1.2.5f) – pushing above equilibrium creates unemployment the same way a minimum wage does.

Government intervention

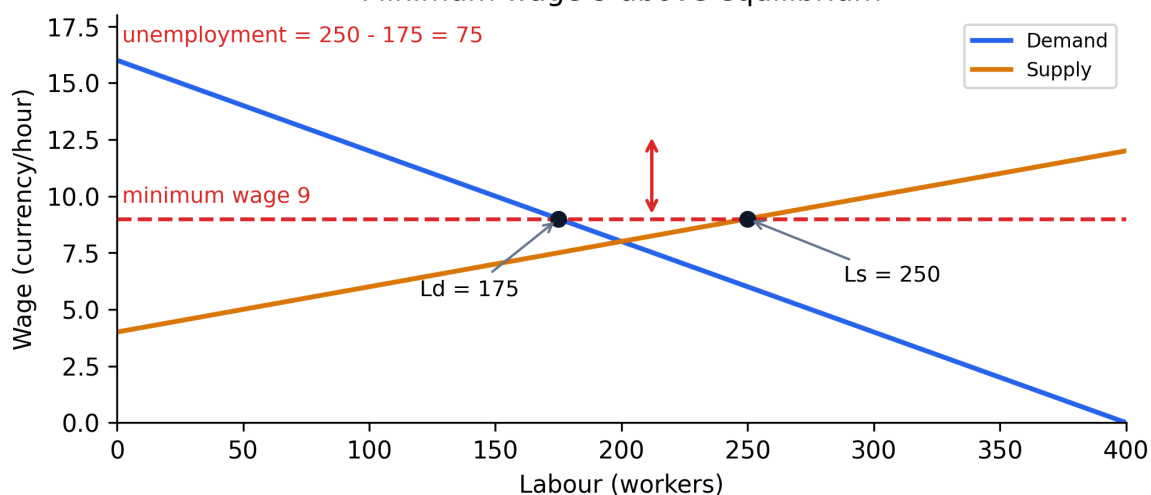
Policies for externalities (1.2.6a): **Taxation** (raises the private cost towards the social cost), **subsidies** (internalise external benefits), **finances**, **regulation** and **pollution permits** (capping total emissions and letting firms trade). Each has advantages (targeted, revenue-raising, market-based) and disadvantages (hard to set correctly, enforcement costs, regressive effects) (1.2.6b). Competition regulation (1.2.6c): to PROMOTE competition, LIMIT monopoly power, PROTECT consumer interests and CONTROL mergers and takeovers. Labour-market intervention (1.2.6d): the **minimum wage** exists to prevent exploitation and reduce in-work poverty; at wage 9 the model gives $L_d = 175$ against $L_s = 250 - 75$ workers unemployed – so its advantage (higher pay for the employed, poverty reduction) trades against disadvantages (unemployment, higher business costs, price rises).

The labour market: wage 8, employment 200

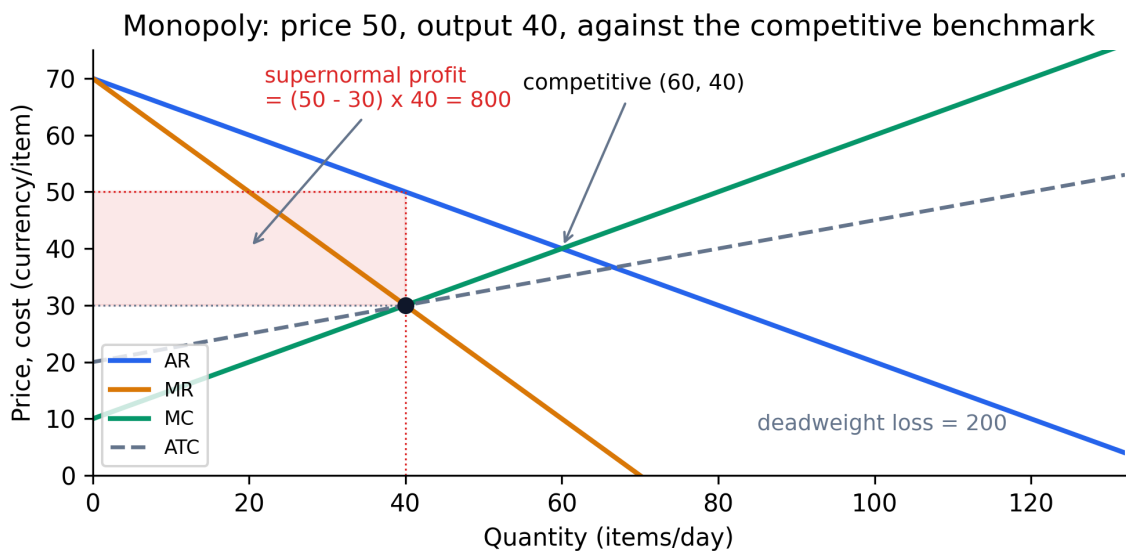


Original model: wage 8 and employment 200 where the curves cross.

Minimum wage 9 above equilibrium



Original model: at the 9 floor, Ls 250 against Ld 175 – 75 unemployed workers.



Original model: price 50 and output 40 with supernormal profit 800, against the competitive (60, 40).

Checklist

- Competition's five advantages and the economy-level effects; large vs small firms; five growth factors; four reasons firms stay small (1.2.4a–d).
- Monopoly: definition, six features and five barriers; advantages and disadvantages; the model (40, 50, 800, DWL 200) (1.2.4e–g).
- Oligopoly: definition, seven features; advantages and the cartel/price-war disadvantages (1.2.4h–j).
- Labour demand (derived, substitutes, productivity) and supply (eight factors); quantity and quality; human capital (1.2.5a–d).
- The labour diagram with equilibrium (200, 8) and shift analysis; trade unions (1.2.5e–f).
- Externality policies (five) with pros and cons; competition regulation's four aims; the minimum wage with the 75-unemployed arithmetic (1.2.6a–d).

Boundary notes: Paper 1's 20-mark questions often ask for one diagram with both equilibria and the unemployment gap labelled. Lists (barriers, features) are definition-mark material. All worked numbers are original on the shared models.