Government Intervention within markets

Arguments, definition	**Evaluation**
Government intervention is when governments intervene in free-markets to correct market failure/a misallocation of resources. - Definition (Legal price cap enforced by the government) - This prevents firms from charging consumers above the cap - Therefore households will not be overcharged what the government believes to be affordable, (ONS, household survey)	- Whether households find the new price cap as “affordable”, depends on the magnitude of the maximum price - Do governments possess sufficient information to assess the affordability of the energy market? (Asymmetric information)
- Governments regulate businesses to keep them in line - Involves sending out inspectors/ conducting observations - Pressures businesses to keep prices stable - Cost of Living crisis - Measure used by government	- This depends on how effective government regulation is - This is because businesses can still communicate with each other - This depends on costs of regulation - Regulation is costly - There is an opportunity cost regarding cost of regulation -
- Subsidies are financial grants awarded by governments to firms. - Energy production can be subsidised - Such that the cost of energy production is lowered - Firms pass on savings onto consumers through lower energy prices	- This depends on whether firms actually pass on cost savings to consumers - Firms are ultimately profit motivated, it’s not in the firms best interest to pass savings - Therefore subsidies are not the most effective measure in controlling energy bills
- CMA stops collusion by investigating energy providers - If collusion is found, government uses legislation to control prices/behaviour -	- This depends on the effectiveness of legislation/competition authorities - Firms may exploit loopholes to still exploit consumers
- Lower barriers of entry, to encourage competition - This involves smaller energy companies entering the market - Subsidising smaller companies will lead to lower production costs, - New companies past savings onto consumers, giving them a competitive advantage - Thus, larger companies, aiming to control market share, will oblige and lower prices to remain competitive	- Opportunity cost of subsidising smaller companies - Government could allocate those funds to schooling/NHS - **Conclusion:** (Examiners want to see your opinion) To conclude, although in theory subsidies will allow energy companies to pass on savings to consumers, whether this actually happens, is highly reliant on firms' willingness to cut potential profits, in order to increase consumer surplus. Furthermore, in the long-run firms may become reliant on subsidies i.e. lobbying to maintain subsidy grants..

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Paragraph 1 Negative externality's are not accounted for in the price mechanism, spillover effect on third parties creating social costs. **Internalise the externality** reduce quantity towards a new **social optimum** **Hypothecated taxes** are used to fund	Negative externality's are not accounted for in the price mechanism, spillover effect on third parties creating social costs. **Internalise the externality** reduce quantity towards a new **social optimum** **Hypothecated taxes** are used to fund	Regressive effect on lower income band?
Behavioural nudges are	Persuade companies to buy or lease vehicles that emit less or have better fuel efficiency, more Qd for EV, in turn more Qd for charging points In London for example, all new single-decker buses are zero-emission, and new taxis must be hybrid or electric. These regulations are often seen as effective in a short space of time.	
	Better information on air quality and the impact of traffic congestion on pollution can bring about soft behavioural change, but tougher regulations are, in my opinion, needed to change the cost-benefit analysis of households and businesses when deciding their preferred transport mode.	

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Multiplier: Effect of an injection into the econonomy on aggregate demand.

MPC: How likely it is for consumers to consume.
- income
- economic growth
- interest rates
- confidence
- prices

MPM:
- exchange rates
- availability of goods/substitutes

Monopoly factors:

Barriers to entry: **EOS** **Limit pricing** **Resource ownership** **Sunk Costs** **Brand loyalty**	Incumbent firms have a cost advantage over new entrants, due to **EOS** Set price below production costs of new entrants, ensuring they cannot enter profitably - as they cannot cover their losses BT own network of cables Unrecoverable costs deter new firms, they do not get the value of their costs back as they are no match Difficult for new firms to match **brand loyalty**

The market can be segmented, PED,

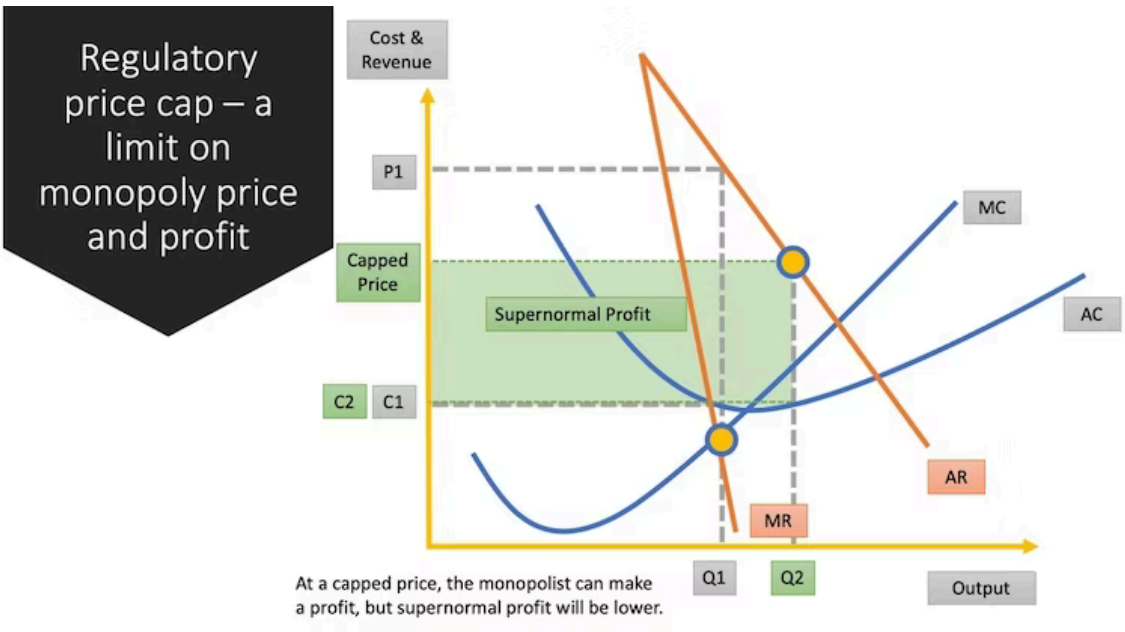
	Costs	Benefits
Consumers	Loss of consumer surplus	If they receive lower price,

	as P > MC there is loss of allocative efficiency. Strengthens monopoly power of firms, higher prices in long-run?	e.g. students, net welfare gain as a result of cross subsidisation, positive consumption externality?
Producer	Can be marked as **predatory pricing** by CMA. To segment the market requires lots of information, thats costly.	Higher supernormal profit, which arise from p.d, can help stimulate investment. If more profits are made in one market, a different market which makes losses could be cross subsidised, especially if it yields social benefits. This will limit or prevent job losses, which might result from the closure of the loss-making market.

Benefits The basic model of monopoly suggests that higher prices and profits and inefficiency may result in a misallocation of resources compared to the outcome in a competitive market. Monopolies can earn significant supernormal profits, so they might invest more in research and development. This can yield positive externalities, and make the monopoly more dynamically efficient in the long run. There could be more invention and innovation as a result. Moreover, firms are more likely to innovate if they can protect their ideas. This is more likely to happen in a market where there are high barriers to entry, such as in a monopoly

Monopolies have no incentive to become more efficient, because they have few or no competitors, so production costs are high. Monopolies could generate export revenue. For example, Microsoft generates a lot of export revenue for America. There is a loss of consumer surplus and a gain of producer surplus. If a monopolist raises the market price above the competitive equilibrium level, output will fall from Q1 to Q2. This leads to gains in producer surplus. Since monopolies are large, they can exploit economies of scale, so they have lower average costs of production. The long run average cost curve can be used to show this:

High profits can be a source of government revenue?



Arguments	Evaluations
Lower exchange rate, BofE lower interest rate, Pound depreciate, Less units of foreign currency needed to buy British export, British exports, relatively cheaper, more attractive to foreign buyer	Depends on magnitude, What foreign currency pound depreciates relative to, Dollar or Euro?
Investment in education/training, Workers become specialised, they gain skills, Worker become more efficient, Production costs are lower, firms pass savings to international buyers through export prices,	Time lag & SR,LR Opportunity cost, investing in education/training may prevent them from investing in healthcare/infrastructure/technology Depends on the quality of the education/training If a developing country, then it is unlikely they would have the funds for this

Government gives subsidies to export markets, Their COP will be reduced, Lower COP could translate to lower export costs, therefore cheaper prices make the UK more internationally competitive	Firms being profit motivated may not lower prices due to the decrease in COP Firms become reliant on subsidies, it's very costly in the LR, unsustainable
Encouraging investment in the economy Tax relief, Taxes are part of business costs, if taxes are lowered, firms profits increase More profit, means firms can finance r&d/machinery This can lower costs and make businesses more internationally competitive	Opportunity cost as government now has less revenue to invest in other parts of the economy that have more priority. If the magnitude of the tax relief is small it won't have much effect.

Measures to increase international competitiveness

In conclusion,I would recommend that the government use a combination of measures to increase international competitiveness. In the short run , tax relief and subsidies would be the best way to reduce costs and increase productivity, leading to more competitive exports. But in the long-run investments in education/training, will greatly benefit the productivity/efficiency of the economy which will greatly increase international competitiveness in the long run.