**3.5 Government Intervention**

**1 Government intervention in product markets**

a) The case for government intervention.

b) Measures to control monopolies and mergers:

• price regulation

• profit regulation

• quality standards

• performance targets

• referral to regulatory authorities

• legislation to control mergers and takeovers.

c) Measures to promote competition and contestability:

• tax incentives and grants to promote small businesses and FDI

• deregulation

• privatisation

• competitive tendering for public sector contracts

• trade liberalisation.

d) Measures to protect suppliers and employees:

• local sourcing of raw materials and components

• employment legislation to protect workers from

• exploitation

• barriers to entry of foreign firms

• restrictions on the monopsony power of firms

• nationalisation.

e) The impact of each measure on:

• price

• profit

• efficiency

• quality

• choice.

f) Limits to government intervention:

• regulatory capture

• asymmetric information/information gaps

• inadequate resources

• lack of regulatory power.

**2 Government intervention in labour markets**

a) The case for government intervention.

b) Types of government intervention in labour markets and their

effects:

• maximum wage controls

• minimum wage controls

• direct taxes e.g. national insurance contributions; corporation

tax

• measures to reduce geographical and occupational immobility

of labour

• measures to reduce discrimination and exploitation.