Exercise walk-through

The Effects of Government Intervention in Different Market Structures ▪ 6.4

eXercise

You must be able to

- analyse how a **per-unit tax** or **subsidy** affects price, quantity, and surplus
- explain how regulation of a **natural monopoly 自然垄断** can use marginal-cost or average-cost pricing
- describe the aims of **antitrust policy 反垄断政策**
- weigh correcting **market failure** against the costs of **government failure 政府失灵**

Method — Taxes and subsidies

A **per-unit tax** raises price and cuts quantity; a **subsidy** lowers price and raises quantity. Both change consumer and producer surplus.

Method — Regulating a natural monopoly

- **Marginal-cost pricing** ($P = MC$) is efficient but may make the firm lose money.
- **Average-cost pricing** ($P = ATC$) lets it break even.

Method — Antitrust and government failure

Antitrust policy limits market power and promotes competition. But intervention can itself be costly or misjudged — **government failure**.

Practice 2.1 ▪ 1 mark

State the aim of antitrust policy.

Solution 2.1

Method: Antitrust and government failure

Worked steps

to limit market power and promote competition **B1**.

Practice 2.2 ▪ 1 mark

State one way a government can regulate a natural monopoly's price.

Solution 2.2

Method: Regulating a natural monopoly

Worked steps

marginal-cost pricing or average-cost pricing (any one) **B1**.

Practice 2.3 ▪ 1 mark

Define government failure.

Solution 2.3

Method: Antitrust and government failure

Worked steps

when government intervention itself leads to an inefficient or worse outcome B1.

Exam-style 3.1 ▪ 1 mark

Antitrust policy aims to

- **A** create monopolies
- **B** limit market power and promote competition
- **C** raise taxes
- **D** fix exchange rates

Solution 3.1

Method: Antitrust and government failure

A create monopolies

B limit market power and promote competition ✓

C raise taxes

D fix exchange rates

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

Setting a natural monopoly's price equal to marginal cost is

A profit-maximizing for the firm

B allocatively efficient

C a subsidy

D a tariff

Solution 3.2

Method: Regulating a natural monopoly

A profit-maximizing for the firm

B allocatively efficient ✓

C a subsidy

D a tariff

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

A government breaks up a dominant monopoly and regulates the successor firms' prices.

(a) Name the policy that limits market power.

(b) State one benefit to consumers.

(c) Name the risk that the intervention itself is costly or misjudged.

Solution 3.3

Method: Antitrust and government failure

Worked steps

(a) antitrust policy **B1**. (b) more competition and lower prices **B1**. (c) government failure **B1**.