2.8 The Effects of Government Intervention in Markets

Name: ____________ Class: ________ Date: __________ **Total: 9 marks**

KEY WORDS price floor 价格下限 • price ceiling 价格上限 • deadweight loss 无谓损失 • per-unit tax 从量税 • tax incidence 税负归宿

Objective

Build the skills to answer exam questions on **the effects of government intervention in markets**.

You must be able to:

- analyse a **price ceiling** 价格上限 and a **price floor** 价格下限
- show how a binding price control creates a **deadweight loss** 无谓损失
- analyse the impact of a **per-unit tax** 从量税 on price, quantity, and revenue
- explain how **tax incidence** 税负归宿 depends on relative elasticities

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Price controls

A **binding ceiling** (below equilibrium) causes a **shortage**; a **binding floor** (above equilibrium) causes a **surplus**. Both reduce total surplus, creating a **deadweight loss**.

■ A per-unit tax

Raises the price buyers pay, lowers the price sellers keep, and **reduces the quantity** traded; the gap is government revenue.

■ Tax incidence

The **more inelastic** side of the market bears the **larger** share of the tax.

2 Practice

2.1 State the effect of a binding price ceiling. [1]

2.2 State who bears more of a tax: the more elastic or the more inelastic side. [1]

2.3 A $2 per-unit tax is placed on a good. State its effect on the price buyers pay and the quantity traded. [2]

3 Exam-style questions

3.1 A binding price floor causes a [1]

- **A** shortage
- **B** surplus
- **C** higher quantity traded
- **D** no change

3.2 A per-unit tax creates a [1]

- **A** gain in total surplus
- **B** deadweight loss
- **C** shortage
- **D** subsidy

3.3 A per-unit tax is placed on a good with very **inelastic** demand.

(a) State who bears most of the tax. [1]

(b) State the effect on the quantity traded. [1]

(c) Name the loss of total surplus that the tax creates. [1]

Solutions

2.1 it causes a shortage (quantity demanded exceeds quantity supplied).

2.2 the more inelastic side.

2.3 the price buyers pay rises and the quantity traded falls.

3.1 **B**.

3.2 **B**.

3.3 (a) buyers (demand is more inelastic). (b) it falls only a little. (c) deadweight loss.