Business competition, the labour market and government intervention

Edexcel IGCSE Economics 4EC1 sections 1.2.4-1.2.6 full package

Topic 5 at a glance

> How firms compete, how wages are set, and when the state steps in.

- 4EC1 spec sections 1.2.4 to 1.2.6.
- Two models: the labour market and the monopolist.

What competition gives

> Rivals force firms to cut costs and serve buyers better.

- The economy gains resources allocated where wanted.
- Costs: duplicated capacity, corners cut.

Large and small firms

Large firms

+ economies of scale
+ brands and finance
– diseconomies, out of touch

Small firms

+ flexible and personal
– no economies of scale
– weak bargaining power

Why firms grow, why some stay small

Firms grow for	Firms stay small for
economies of scale	a small or niche market
spreading risk	lack of finance
taking over rivals	the owner's aims

How a monopoly holds on

> Barriers keep rivals out, so one firm sets the price.

- Barriers: legal, patents, marketing, technology, start-up costs.
- For: scale economies, funded innovation, stable supply.

The monopolist, drawn

MR $=$ MC at 40 units; price 50; profit $(50 - 30) \times 40 = 800$.

- MR falls twice as fast as AR.
- Profit $=$ (price $-$ ATC) $\times$ output.

Oligopoly: a few large firms

Gains	Dangers
choice by differentiation	cartels fix high prices
innovation from profits	price wars destroy profit
economies of scale	firms driven out

What moves labour demand and supply

Demand for labour

derived from product demand

machines as substitutes

productivity

Supply of labour

population and migration

ages: school and retirement

skills and mobility

The labour market, drawn

Equilibrium at 200 workers and a wage of 8; more demand raises both.

- Migration shifts supply: more jobs, lower wage.
- Unions pushing above equilibrium cost jobs.

A minimum wage above equilibrium

At 9, firms want 175 workers but 250 want work: 75 unemployed.

- Aims: stop exploitation, cut in-work poverty.
- A union wage above 8 works the same way.

Five policies for externalities

Policy	How it works
tax	raises private cost towards social cost
subsidy	rewards external benefits
fine	punishes the polluter after the event
regulation	sets legal limits
pollution permits	cap total emissions; firms trade them

Regulating competition

Four aims keep markets competitive.

- A merger can create a **monopoly** overnight.
- Regulators can block or attach conditions.

Data response: the National Living Wage

1. **Rise** £12.21 − £11.44 = £0.77 an hour
2. **Percentage** $0.77 \div 11.44 \times 100 \approx 6.7\%$
3. **Wage bill** $10 \times 30 = 300$ hours; $300 \times$ £0.77 = £231

Decision

Pay rose about 6.7%; the café pays £231 more a week.

Data response: the best way to cut poverty?

For	Against
raises pay for 3 million	too high: jobs and hours cut
no cost to the budget	cafés raise prices or close
lower staff turnover	misses workless homes

Check yourself

Question	**Answer**
Monopoly output and price?	MR = MC: 40 units at 50
Monopoly profit?	$(50 - 30) \times 40 = 800$
Labour equilibrium?	200 workers, wage 8
Minimum wage 9: unemployed?	$250 - 175 = 75$
Why is labour demand derived?	it comes from product demand