# A-Level Edexcel Economics: Government Intervention Past Paper Answers

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**Question 1**

<table>
<tr><th>Answer</th><th>Mark</th></tr>
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**KAA 4 marks: Award two reasons (2 + 2)**

Government intervention aims to restore or retain competition (e.g. lower prices, more choice), protect jobs, keep investment within a country, making collusion less likely.

Allow macro arguments, e.g. protecting exports, economic growth, balance of payments, multiplier, tax revenue.
Also allow political reasoning, such as falling employment will lose the government's voters

Evaluation 4 marks (2 +2 or 3+1 or 4+0)

- There are advantages to inward investment, and mergers may benefit employment prospects if the firm is more secure when merged
- such protectionism may encourage inefficiency
- The buying of the firm might not change where the firm is located so tax revenues, employment, balance of payments etc. might not change
- Government should **not** be concerned because cross-subsidisation might improve consumer welfare
- Only 50% of the business will be sold, so the foreign buyer will not have controlling rights
- magnitude of unemployment
- reference to frailty in current economic climate

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**(8)**

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**Question 2**

| Answer | Mark |
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| KAA 8 Award best four points or fewer e.g. 2 + 2 + 2 + 2 or 3 + 3 + 2 or 4 + 4<br><br>• Price capping (ref Extract 1 final paragraph). Allow as more than one point, e.g. RPI-X and RPI+K<br>• Regulation<br>• Deregulation (ref Extract 1 final paragraph)<br>• Promotion of contestability or removing of barriers to entry, e.g. giving grants and tax breaks to small firms, removing legal barriers<br>• Performance targeting<br>• Privatisation<br>• Competition policy, mergers and acquisition policy, e.g. use of fines<br>• Nationalisation<br>• Entry into wider competition<br>• Contracting out<br>• Rate of return regulation, or profit capping<br>• Windfall tax<br>• Monitoring of prices<br>• Investigation of unfair or anti-competitive behaviour/collusion<br>• The government can increase awareness of inefficiency, by bringing to the public's | |

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| attention actions which are likely to damage their reputation. E.g. 'name and shame'<br><br>Evaluation (8) Award best four points or fewer e.g. 2 + 2 + 2 + 2 or 3 + 3 + 2 or 4 + 4<br><br>• inconsistency of nationalisation/privatisation<br>• firms do a better job if they know they must sink or swim, so saving firms such as banks means that firms become complacent<br>• efficiency is not always a good thing – does it cost in terms of jobs?<br>• deregulation could be used as an evaluation of regulation, or vice versa. Banks might be a good example.<br>• price capping could be a disincentive for investment, may reduce efficiency in the future<br>• regulatory capture<br>• information asymmetry<br>• other Government failure, e.g. targeting causing problems in other areas, high cost of implementation, administration costs (can count as more than one point)<br>• monitoring targets can fail unless anything is done<br>• allow high should X be, and for how long before it is negotiated<br>• there fines big enough to have any effect? Or are they too big?<br>• natural monopoly arguments<br><br>***Do not award reference to PFI in KAA marks, but as a point of reference in evaluation, reference to PFI is permitted.*** | **(16)** |

**Question 3**

**(c)**

| | |
|---|---|
| | **(12)** |
| e, Application and Analysis – Indicative content | |
| • No significant entry or exit barriers for domestic firms<br>• It has become easier for foreign firms to enter the market<br>• The average 3-firm concentration ratio fell from 1999 to 2005<br>• High levels of investment might be a sign of high levels of competition<br>• High % of tertiary attainment may show SK government's commitments to education | |
| • It is difficult for small firms to access finance and adequate employees, meaning that they cannot compete effectively. Although this is not a result of the government's intervention.<br>• Government has not reduced monopoly power of large conglomerates. Although perhaps it has not done so for a good reason. Possibility of regulatory capture.<br>• Average 3-firm concentration ratio rose 2005-2008. | |

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(d)

| | Mark |
|---|---|
| | **(12)** |
| e, Application and Analysis – Indicative content | |
| <ul><li>Education and training - which will improve human capital levels and productivity of staff</li><li>Incentives for investment (e.g. tax breaks for R&D, subsidies/grants to attract FDI, lower corporation tax rates, lower interest rates) - higher investment will lead to improved technology enabling higher productivity</li><li>Lower income taxes – incentives and motivation</li><li>Policies to increase competition (e.g. deregulation, free trade policies, competition legislation, control of mergers, quality standards and performance targets) - firms will be more efficient and less wasteful enabling them to compete</li><li>Protectionist measures (e.g. devaluation of the currency, subsidies to domestic producers) - this would make exports cheaper relative to the rest of the world making them more attractive</li></ul> | |

| | |
|---|---|
| <ul><li>Less potential for education policy as so many young adults already going to university? More effective to concentrate on training older adults?</li><li>Limited scope for increasing R&D as growth already very quick, and a large proportion of GDP?</li><li>R&D may be unsuccessful</li><li>Opportunity cost of government expenditure on any one policy</li><li>Possible time/implementation lags</li><li>Difficult to impose competition legislation when conglomerates are so crucial to success of economy</li><li>Protectionist measures against terms of trade agreements / WTO membership / may cause retaliation</li><li>Low interest rates may increase inflation, leading to higher export prices</li></ul> | |