3.6.1 Government intervention

a) Government intervention to control mergers
b) Government intervention to control monopolies:
- *price regulation*
- *profit regulation*
- *quality standards*
- *performance targets*

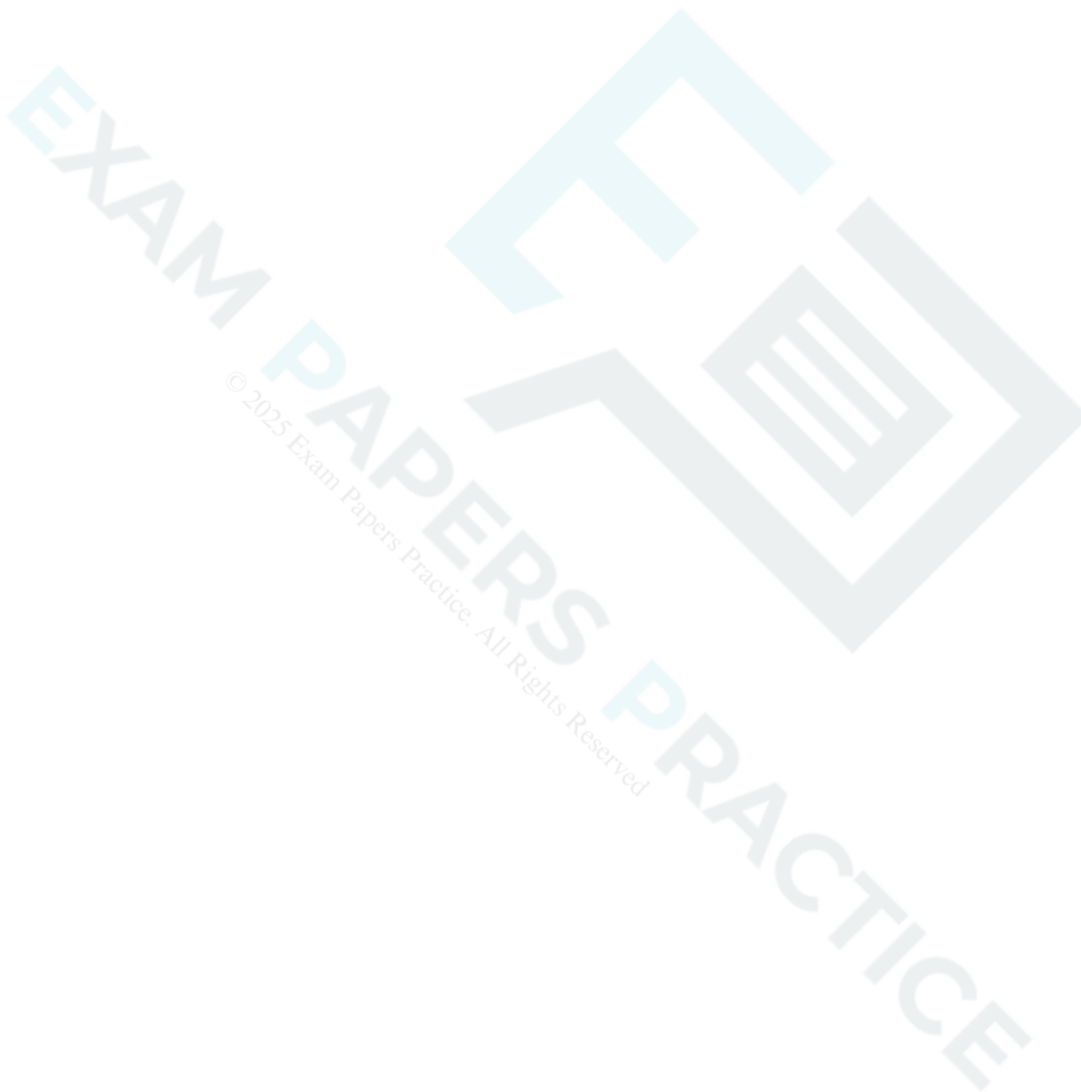
c) Government intervention to promote competition and contestability:
- *enhancing competition between firms through promotion of small business*
- *deregulation*
- *competitive tendering for government contracts*
- *privatisation*

d) Government intervention to protect suppliers and employees:
- *restrictions on monopsony power of firms*
- *nationalisation*

- Competition policy aims to increase competition in a market and encourage the market to work more efficiently
- In the UK the European Commission and the Competition and Markets Authority (CMA) monitor competition. They monitor mergers to prevent those that aren't beneficial to consumers or the efficiency of the market. They stop a merger that would give a firm too high a market share
- Disadvantages of competition policy:
  - Governments lack sufficient information so government failure could occur
  - Costs of enforcement and monitoring
- Price caps stop firms from charging prices that are considered too high. They could be based on the retail price index or the retail price index plus a certain amount (RPI-X+K) which allows firms to invest more. X is the expected amount of efficiency savings a firm makes.
- Advantages of price regulation:
  - They make a market fairer for consumers
  - They provide an incentive for firms to increase efficiency and consumers benefit from improved services
- Disadvantages of price regulation:
  - The government lacks sufficient information to say what the price should be
  - Distorts market forces
- Governments could regulate profits by imposing windfall taxes on what it decides are excessive profits so it taxes profits at a higher rate.
- Advantages of profit regulation:
  - They prvent firms gaining too much monopoly power
- Disadvantages of profit regulation:
  - Reduces firms incentive to improve efficiency
- Quality standards include limited licences which could be temporary and needs to be renewed
- Disadvantages of performance targets:

  - Other areas of business may be overlooked in order to reach targets
  - It must be combined with a fine to give a firm an incentive to meet targets
- Deregulation means removing or reducing regulationsto increase competition
- Advantages of deregulation:
  - It makes an economy more contestable because it is easier for firms to enter a market so price falls
  - Improves the efficiency by reducing the costs of meeting regulation
- Disadvantages of deregulation:
  - Deregulation can cause other market failures
  - There is less safety and protection for consumers
- Small business can be promoted through tax breaks, subsidies or deregulation
- Advantages of promoting small businesses to increase competition:
  - Increased competition which means lower prices and increased choice for consumers
  - Allows 'creative destruction' to occur
- A Private Finance Initiative (PFI) is when a private firm is contracted by the government to run a project. They then rent or lease the service to the government over the cost of 25-30 years
- Advantages of competitive tendering for government contracts:
  - Important facilities can be built which may not normally be afforded
  - There are lower taxes in the short-run because government spending is lower
  - The process forces the suppliers to compete so the government gets better value for money
  - Private sector is more efficient
- Disdvantages of competitive tendering for government contracts:
  - A PFI costs more than it is worth in the long-run so adds to government debt
  - The private sector may try to cut costs by compromising on quality and lowering wages
- Privatisation: the transfer of ownership of a firm from the public sector to the private sector
- Advantages of privatisation:
  - Increased competition improves efficiency
  - Improves resource allocated because private firms respond more effectively to market signals of supply and demand
  - The government gains revenue from selling firms but it is a one-off payment
- Disadvantages of privatisation:
  - A public monopoly could become a private one
  - Privatised firms focus less on safety and quality because they have more focus on reducing costs
- Monopsony power of supermarkets over farmers can be reduced by giving farmers grants and subsidies to support them.
- Nationalisation: public ownership of certain goods and services
- Advantages of nationalisation:
  - Governments can provide the goods and services a country needs at the socially optimum level
  - Nationalised industries are easier to regulate

    - A single nationalised firm has greater economies of scale
    - Suppliers and workers can be paid fair prices
    - A nationalised firm might operate at AR=MC which is allocatively efficient
- Disadvantages of nationalisation:
    - They tend to be inefficient because they are not driven to reduce costs and make profit
    - There is little incentive to act prudently (moral hazard)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