# 3.6.2 The impact of government intervention

a) *The impact of government intervention on:*
   - *prices*
   - *profit*
   - *efficiency*
   - *quality*
   - *choice*

b) *Limits to government intervention:*
   - *regulatory capture*
   - *asymmetric information*

- Impact of government intervention on...:
  - **Prices:** monopolies can be prevented from charging excessive prices, but there is a reduction in allocative efficiency. Monopolies may try to reduce costs to become more efficient and increase profit margins
  - **Profit:** if profit is restricted investment could be limited
  - **Efficiency:** a public sector firm is more likely to operate at the allocatively efficient level and will attempt to maximise social efficiency rather than profits. However, there may be X-ineffficiency because they have no incentive to be efficient so are less productively efficient.
  - **Quality:** Governments can ensure firms focus on increasing social welfare. Firms which profit maximise might compromise on quality.
  - **Choice:** if governments regulate monopolies and encourage the growth of SMEs, consumer choice widens. A price ceiling might force some suppliers out of the market which narrows choice. If price is reduced low income houses can access more goods and services.
- Limits to government intervention:
  - Regulatory capture: when regulators act in the interests of the company, due to asymmetric information, rather than consumer interests
  - Asymmetric information: it could be difficult to determine what level to determine the price cap and whether to block a merger