

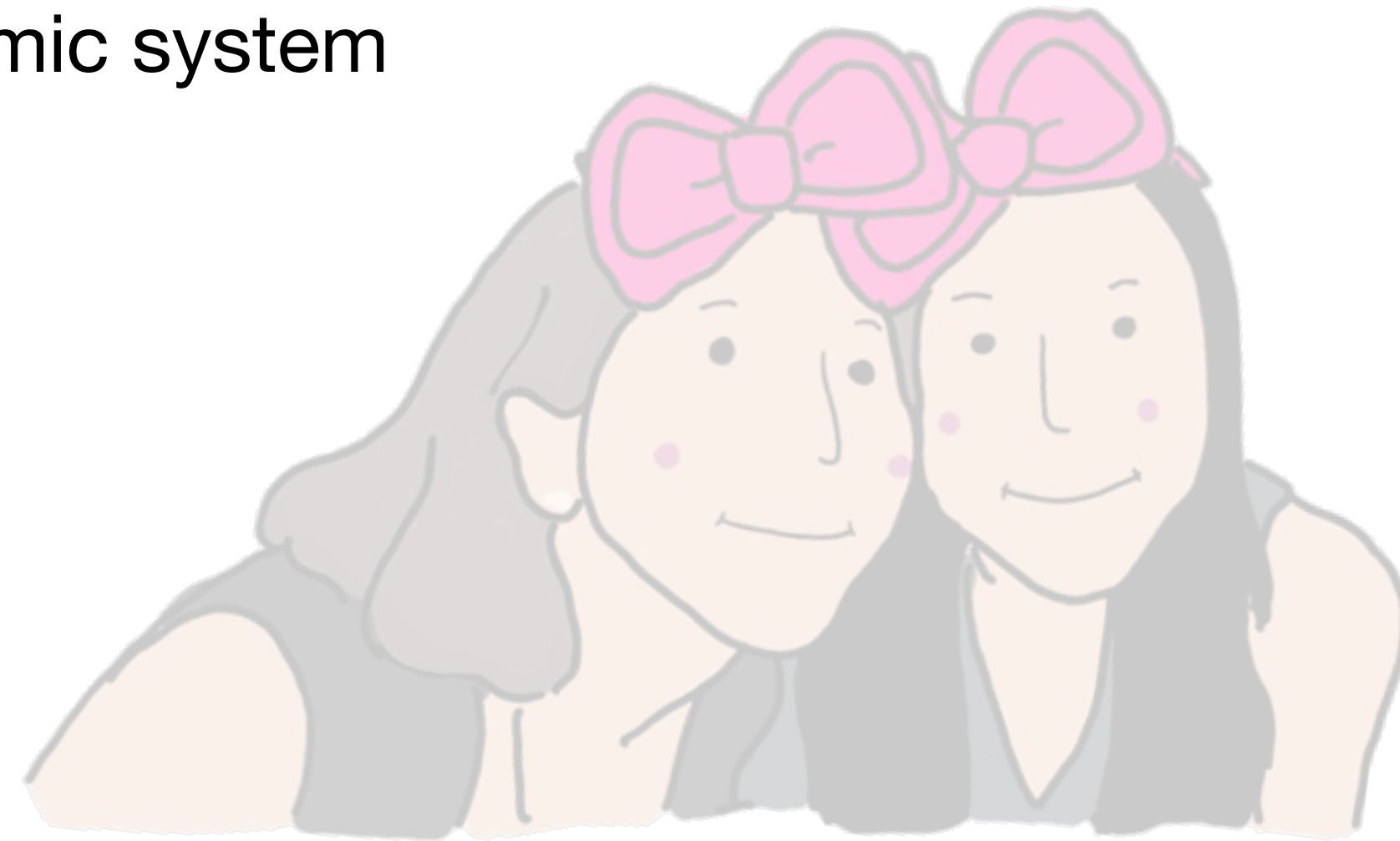


# **MICROECONOMICS - A mixed economy**

By Kru P'Eve and Kru P'Da Knockout.Economics

# Overview

1. Recap mixed economic system
2. Advantages mixed economic system

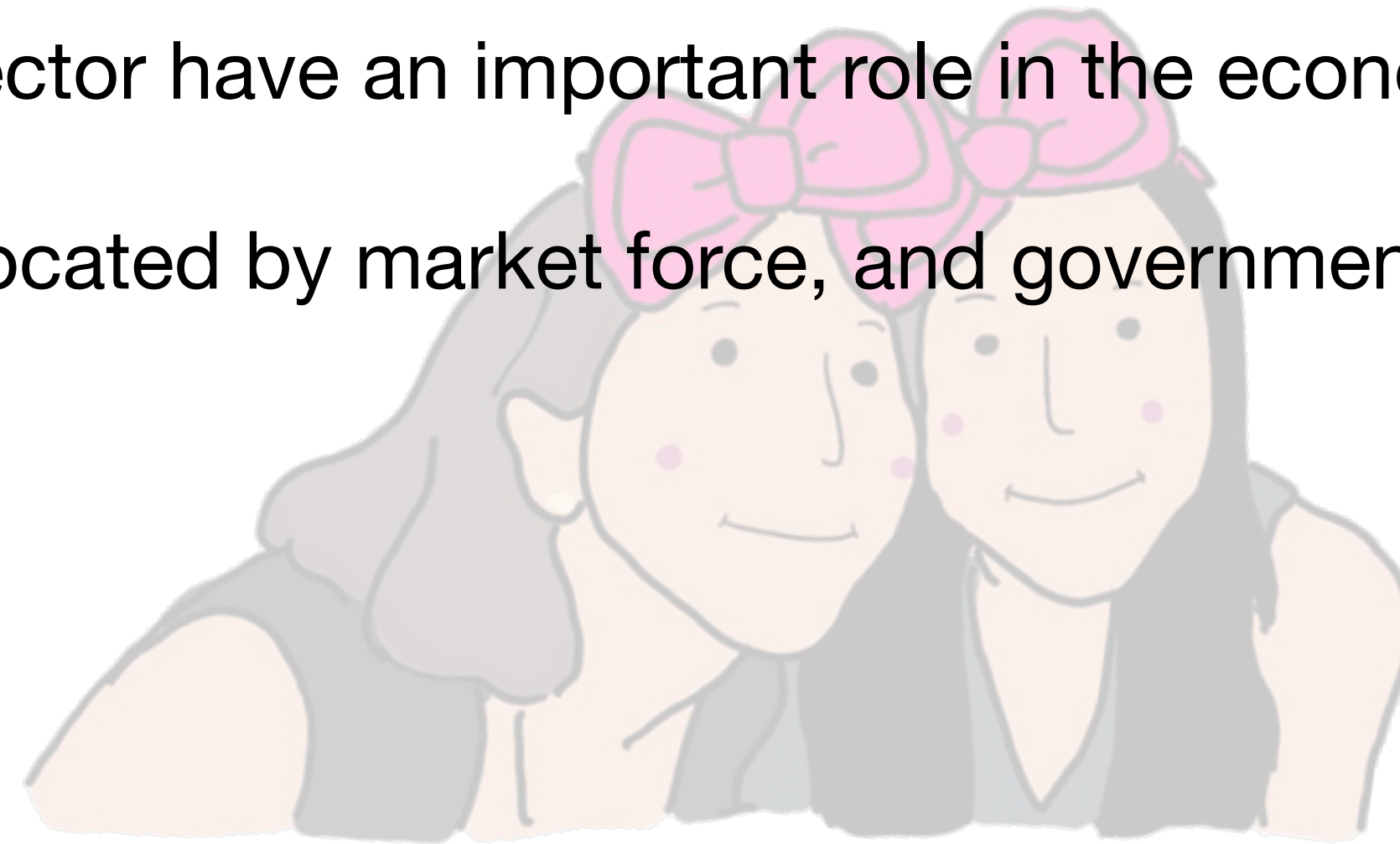


# 1. Recap mixed economic system

- **Meaning mixed economic system**

: Both private and public sector have an important role in the economy

: Part of the economy is allocated by market force, and governments intervene in certain areas of the economy.



## 2. Advantages of mixed economic system

### Advantages from government intervention

- **Government should consider all the costs and benefits that will arise from their decisions.**

- Social Cost. : Private cost + External cost
- Social Benefits : Private benefits + External benefits

- **Government can overcome underconsumption or underproduction of merit goods.**

- Government can also encourage people to consume more on merit goods.
- eg. Healthcare, Education
- Government might provide subsidy and information to consumers and producers.

## 2. Advantages of mixed economic system

### Advantages from government intervention

- **Government can overcome overconsumption or overproduction of demerit goods.**

- Government can also discourage people to consume less on demerit goods.
- eg. Alcohol, cigarette
- Government might impose taxes on such products or provide information or pass legislation to consumers and producers.

- **Government can finance the goods and services that cannot be charged for directly**

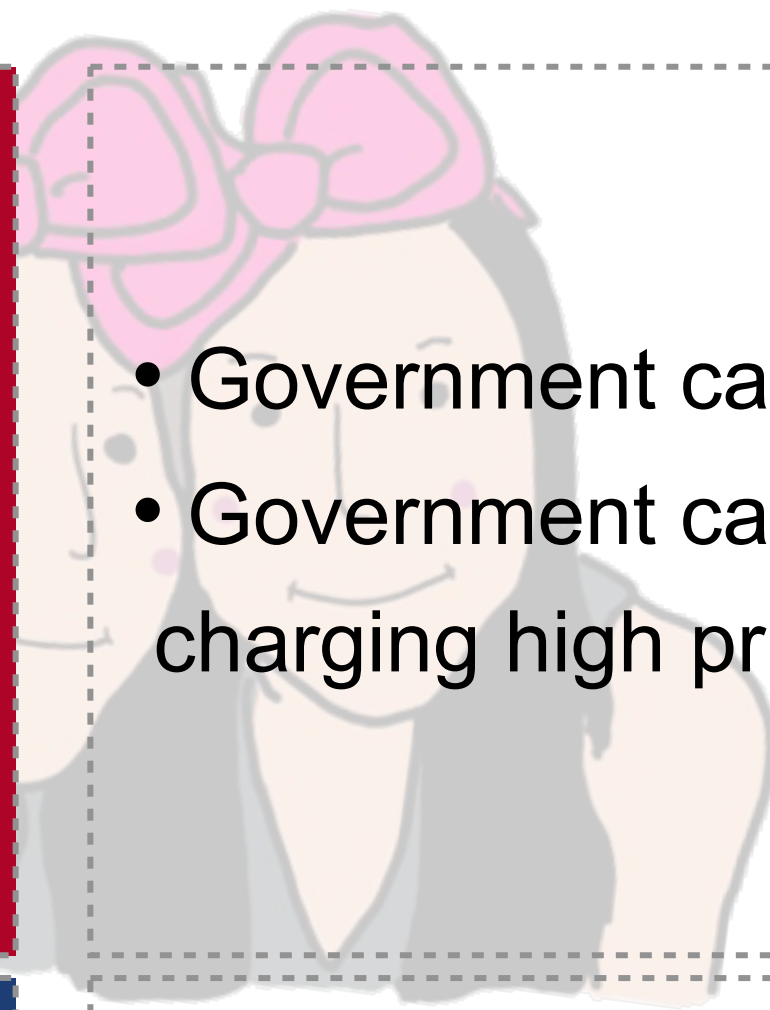
- Public goods : Non-excludable and non-rival
- eg. National defence, Street light, etc.

## 2. Advantages of mixed economic system

### Advantages from government intervention

- **Government can help to prevent abuse of monopoly power**

- **Government could support mobility of resources**

- 
- Government can control merger and acquisition
  - Government can seek to protect consumers from charging high prices by private firms

- Government tends to seek to make maximum use of resources eg. Labour
- Government might support occupational and geographical labour mobility.

# Knockout Economics



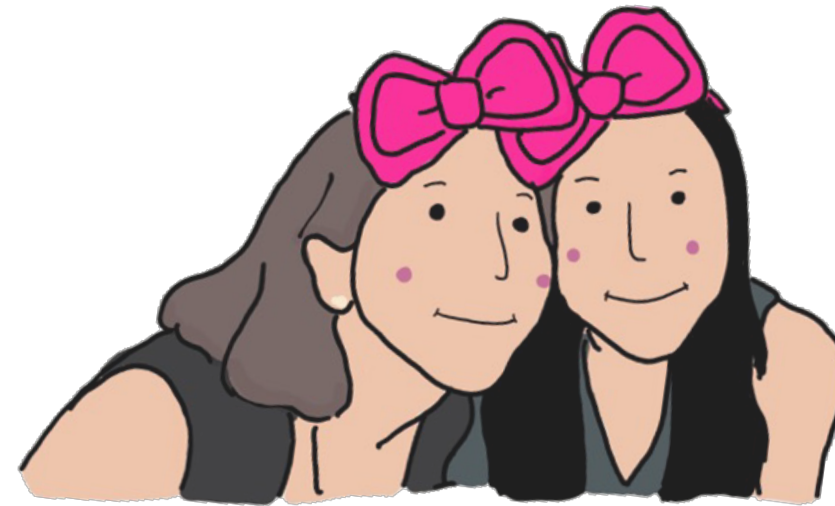
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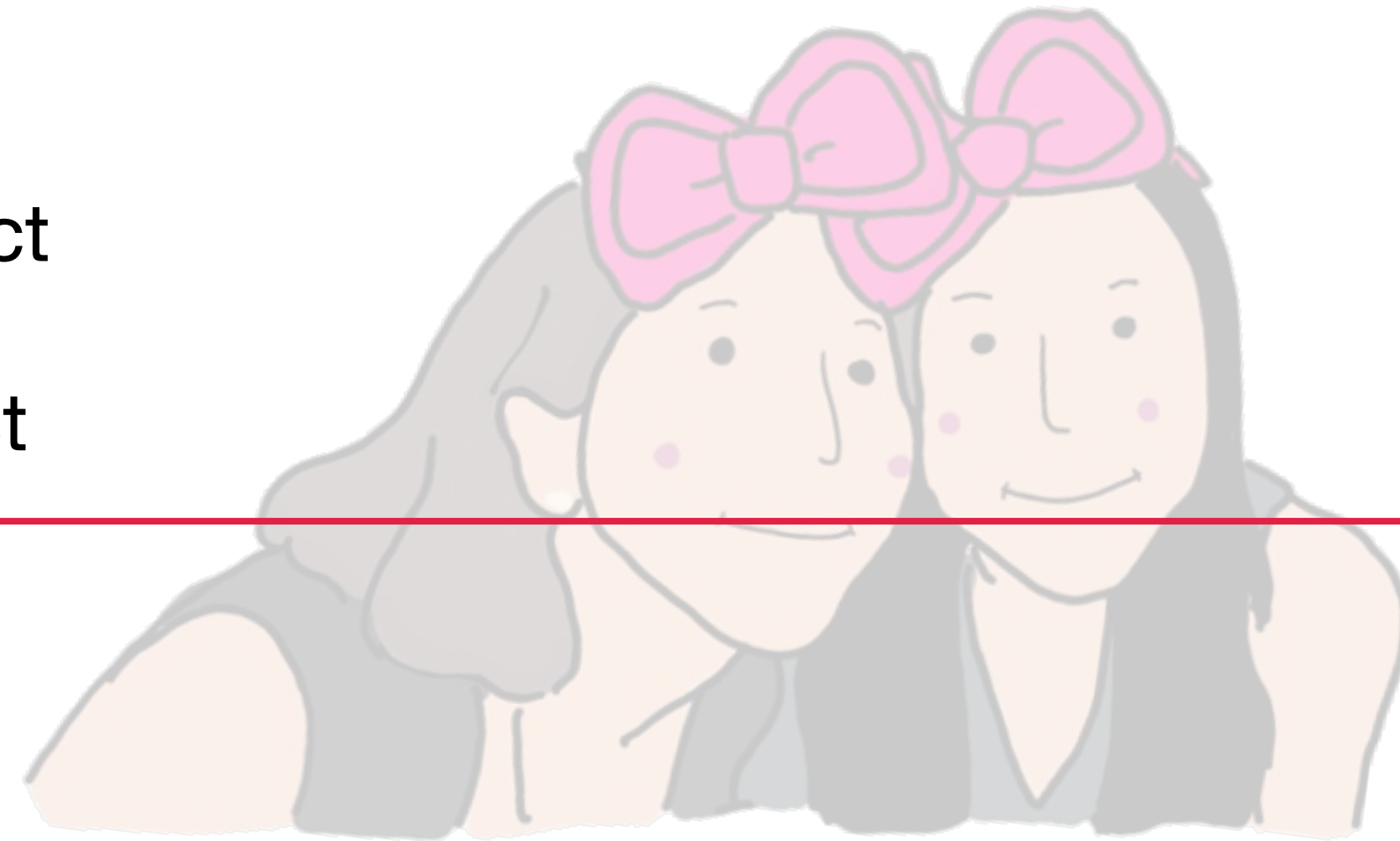


# **MICROECONOMICS - Government intervention to address market failure**

By Kru P'Eve and Kru P'Da Knockout.Economics

# Overview

1. Indirect taxation
2. Subsidies
3. Maximum prices in product
4. Minimum prices in product
5. Regulation
6. Competition policy
7. Privatisation and Nationalisation
8. Direct Provision of goods

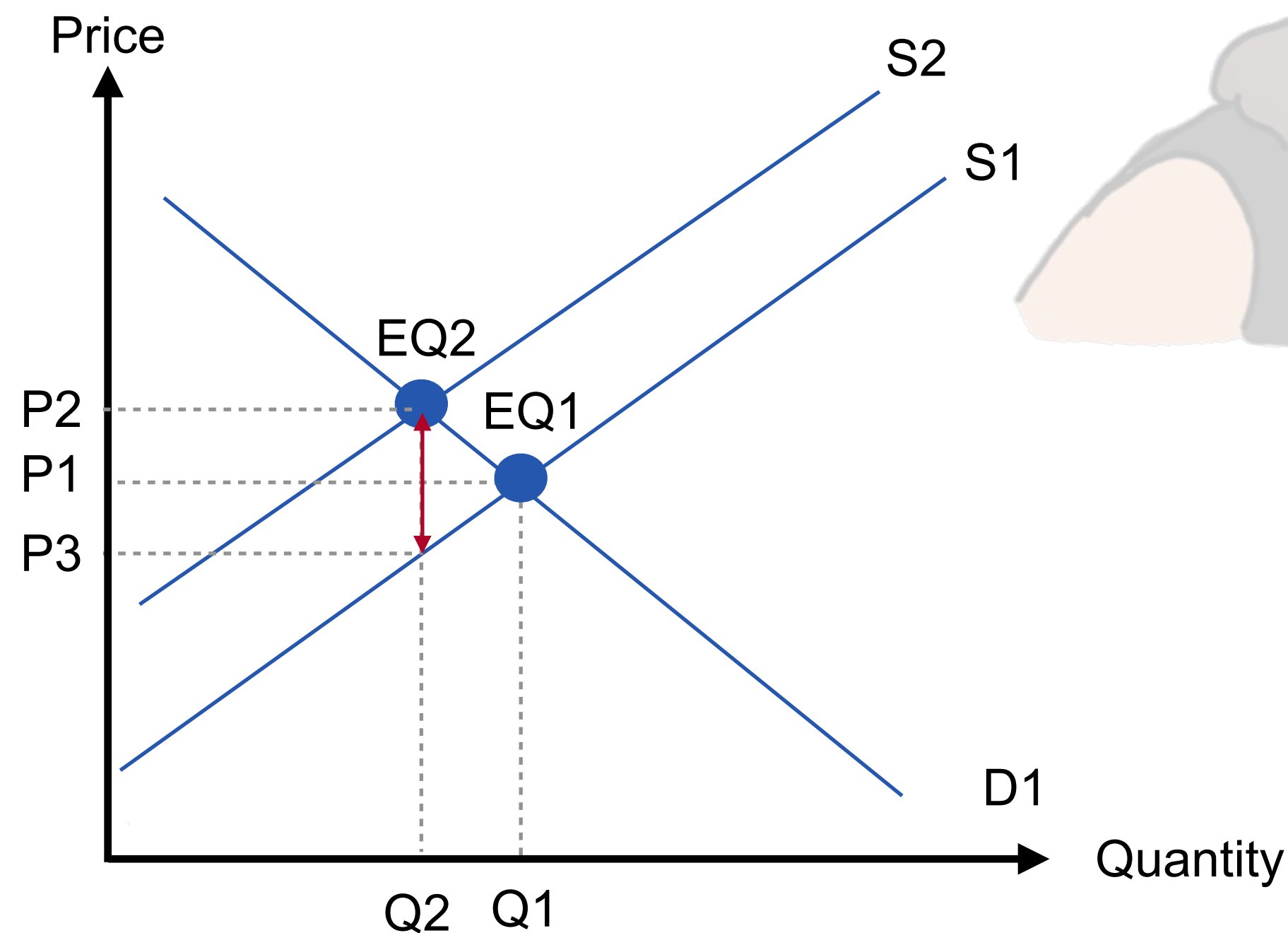


# 1. Indirect Tax

**Indirect taxes** : form of government intervention in the market

: is imposed on suppliers who produce demerit goods (eg. Alcohol, Cigarettes) by the government.

**Eg. Excise Tax** (Tax per unit)



1. Origin point EQ1 , P1 and Q1
2. Government imposed excise tax on demerit goods (eg. Alcohol, Cigarettes)
  - higher cost of production
  - supply curve shifted to the left from S1 to S2
3. New equilibrium EQ2, higher price to P2 and lower quantity to Q2
4. Distance between S1 and S2 : tax per unit
  - Consumer paid :  $P2 - P1$  / Unit , Total consumer paid =  $P2EQ2AP1$
  - Producer paid :  $P1 - P3$  / Unit , Total producer paid =  $P1ABP3$
  - Government receive :  $P2 - P3$  / Unit, Total receive =  $P2EQ2BP3$

## Advantages

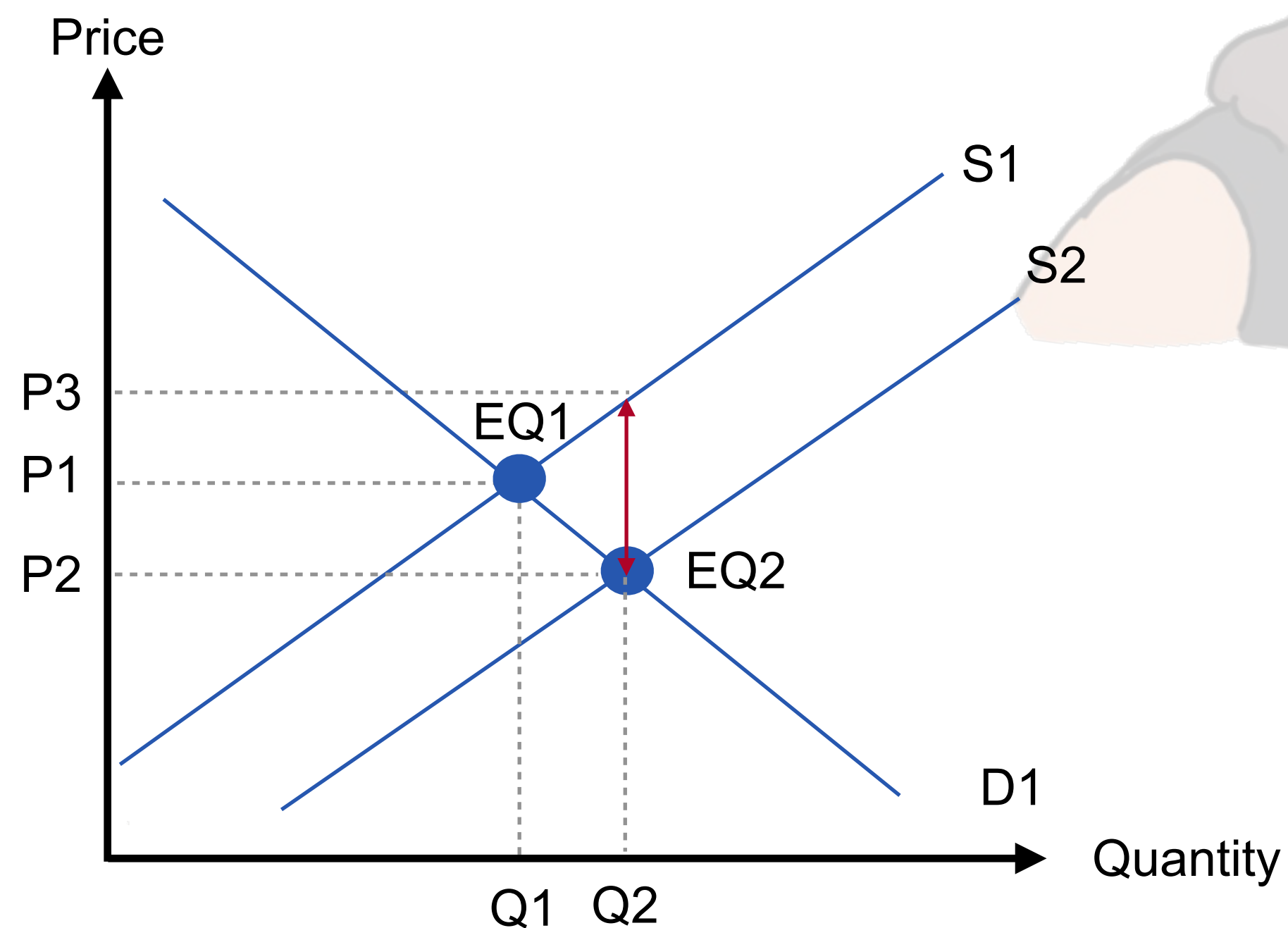
- Reduce consumption and production of demerit goods
- Government can receive higher revenue

## Disadvantages

- Indirect tax is ineffective when demand is inelastic.

## 2.Subsidy

**Subsidy** : grants from government providing to producers which makes lower cost of production  
: eg. Merit goods



1. Origin point EQ1 , P1 and Q1
2. Government provides subsidy on merit goods (eg. Education, Healthcare)
  - lower cost of production
  - supply curve shifted to the right from S1 to S2
3. New equilibrium EQ2, lower price to P2 and higher quantity to Q2
4. Distance between S1 and S2 : subsidy per unit
  - Consumer received :  $P1 - P2$  / Unit , Total consumer received =  $P1AEQ2P2$
  - Producer received :  $P3 - P1$  / Unit , Total producer received =  $P3BAP1$
  - Government paid :  $P3 - P2$  / Unit, Total received =  $P3BEQ2P2$

### Advantages

- Increase consumption and production of merit goods

### Disadvantages

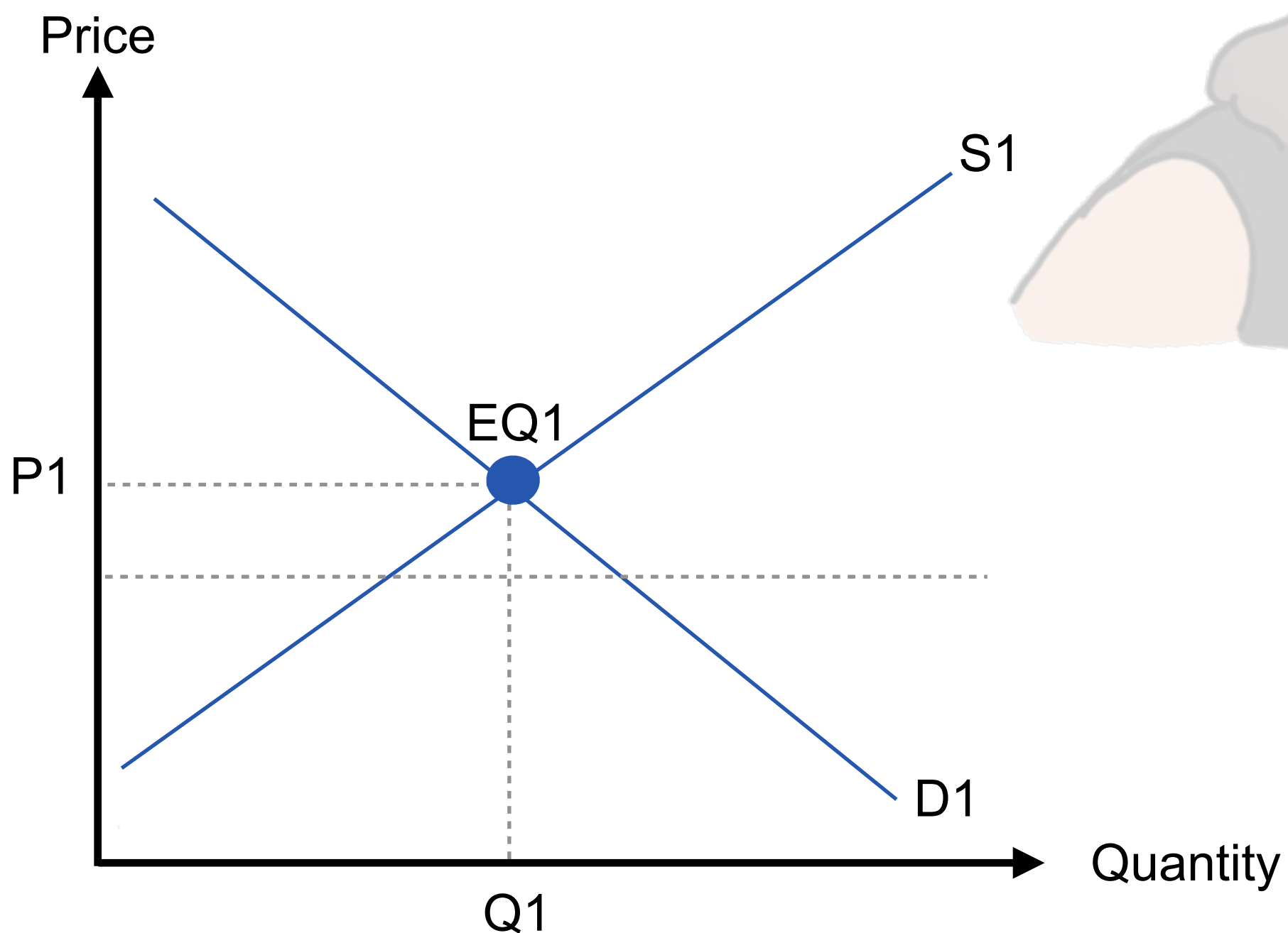
- High opportunity cost for government
- Inefficient use of resources

# 3. Maximum price

**Maximum Price:** set below the equilibrium price by the government

: ceiling price makes poor people to afford basic necessities. eg. Food,

Accommodation



## Advantages

- Poor people can afford basic necessities eg. Food, Accommodation
- : Better standard of living

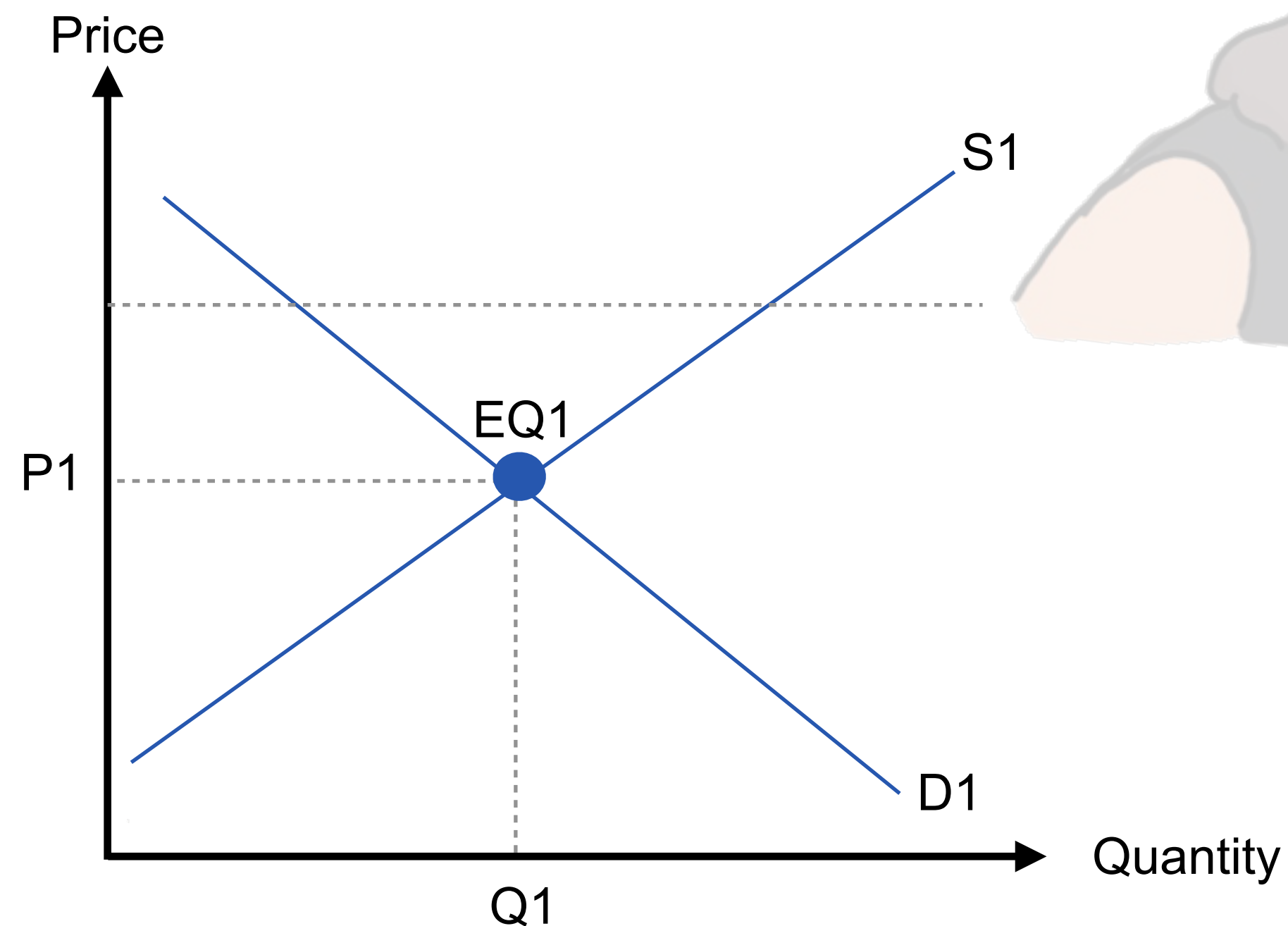
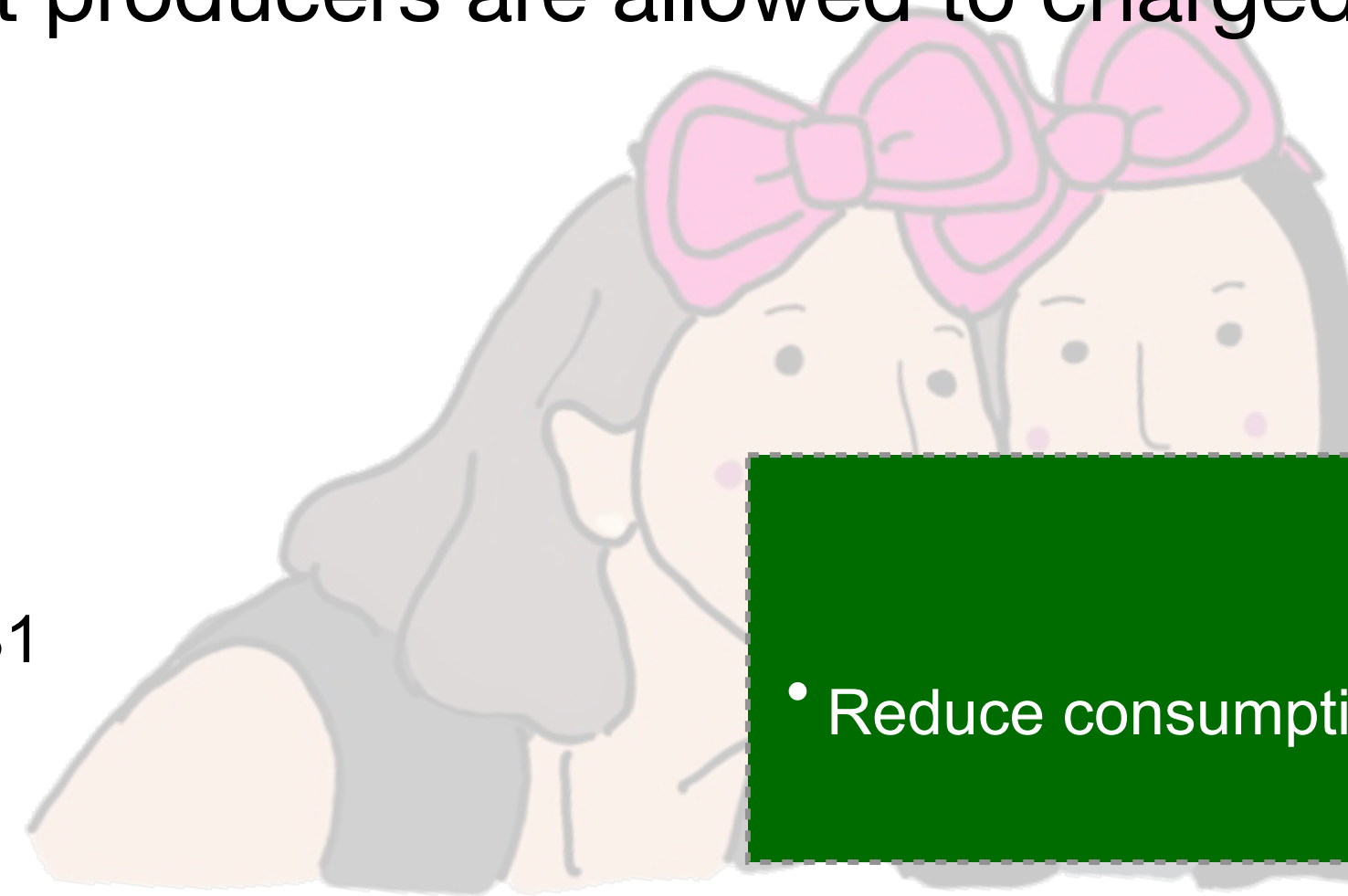
## Disadvantages

- Shortage (Excess demand)
- Shortage can encourage illegal market.

# 4. Minimum price

**Minimum Price** : set above the equilibrium price by the government

: floor price that producers are allowed to charged eg. Demerit goods



**Advantages**

- Reduce consumption of demerit goods

**Disadvantages**

- Surplus (Excess supply)

# Knockout Economics



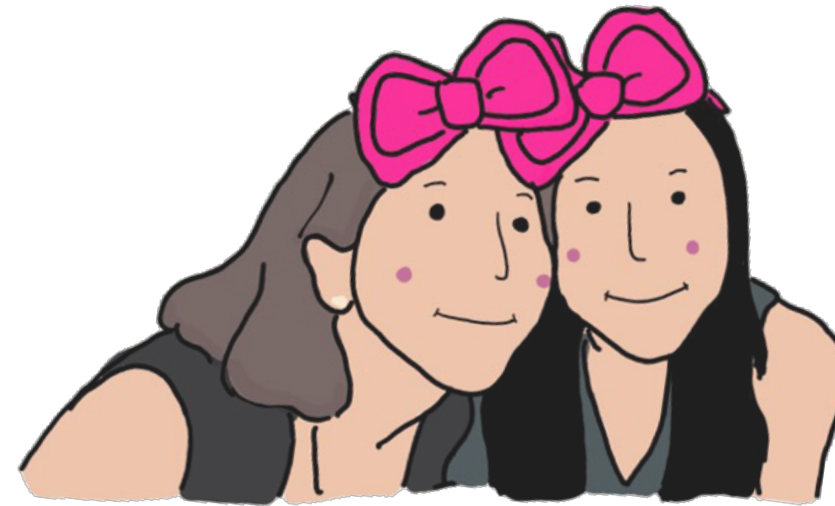
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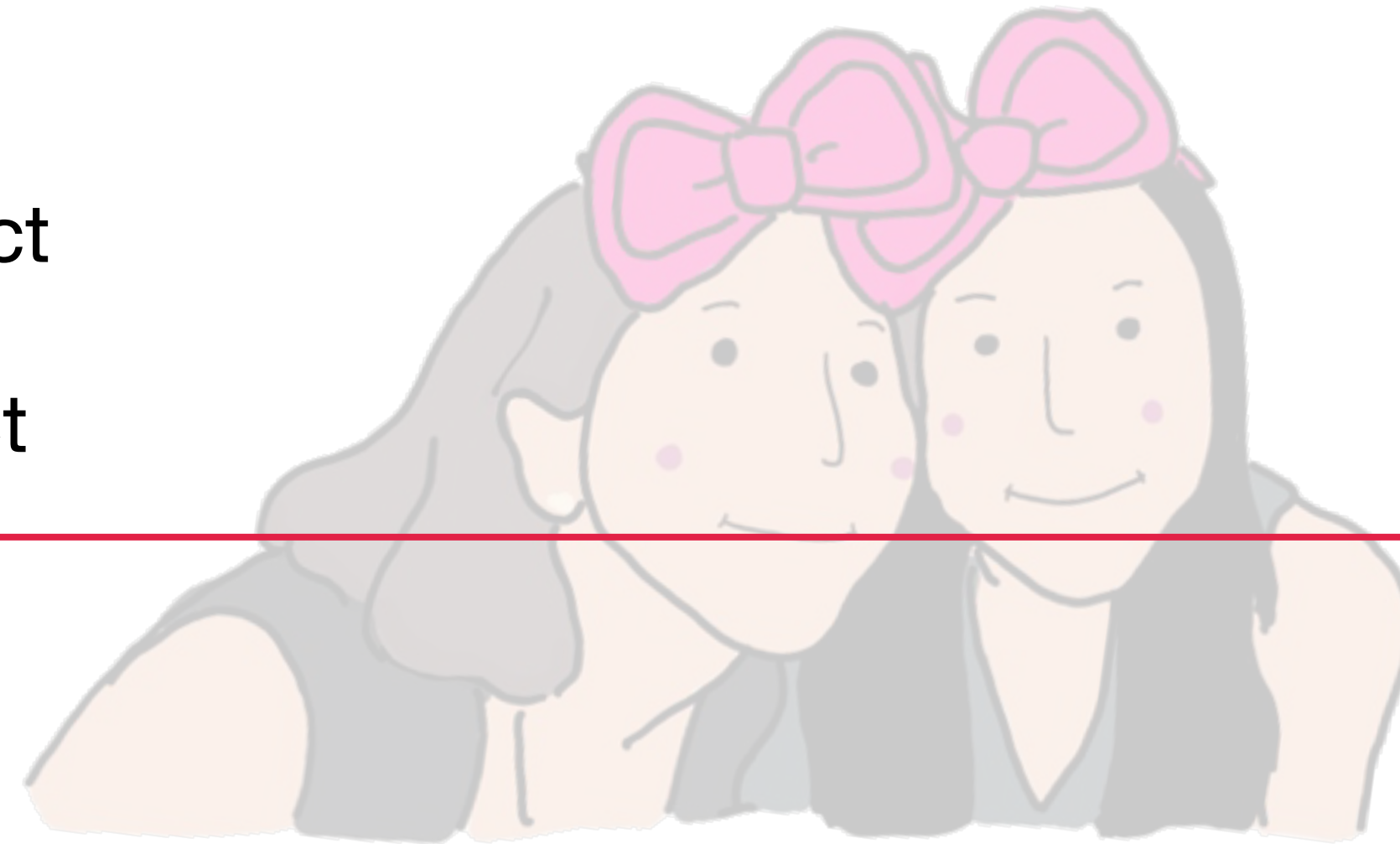
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# **MICROECONOMICS - Government intervention to address market failure (Continue.)**

By Kru P'Eve and Kru P'Da Knockout.Economics

# Overview

1. Indirect taxation
2. Subsidies
3. Maximum prices in product
4. Minimum prices in product
5. Regulation
6. Competition policy
7. Privatisation and Nationalisation
8. Direct Provision of goods



# 5. Regulation

: laws and rules place restrictions on the activities of companies.

Eg. Law banning the sale of alcohols to consumers aged under 18.

## Advantages

- Easy to understand
- Backed up by law

## Disadvantages

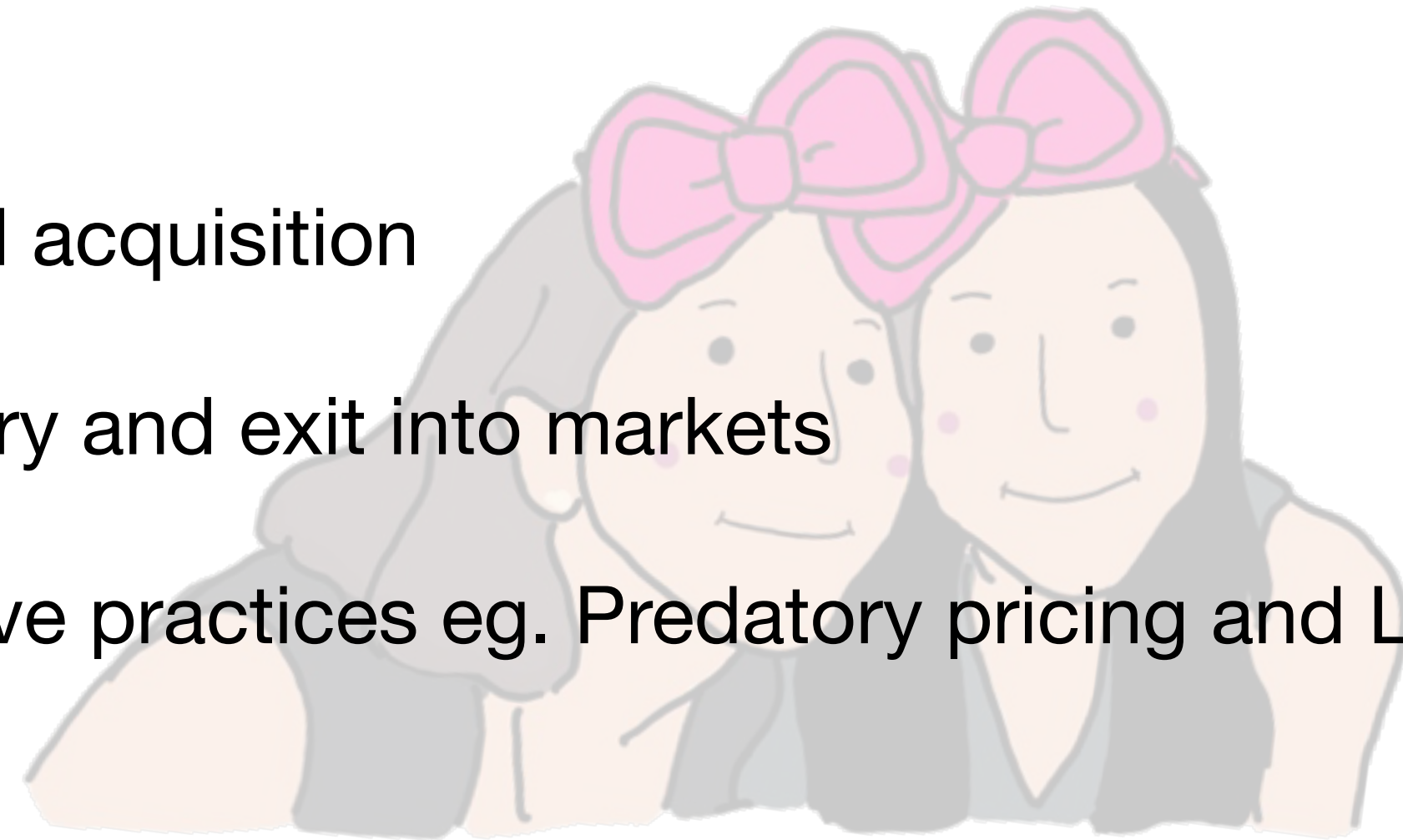
- Government need to monitor as regulations are being followed
  - : this may be difficult and expensive
- Regulations could be too restrictive - this can create barriers to entry and decrease market flexibility.

# 6. Competition Policy

: try to promote competitive pressure and prevent firms from abusing of monopoly power

## To promote competition

1. Prevention of mergers and acquisition
2. Removal of barriers to entry and exit into markets
3. Prevention of uncompetitive practices eg. Predatory pricing and Limit pricing



# 7. Privatisation and Nationalisation

- **Privatisation** : Involves in selling / moving state-owned asset ( Public sector ) to the private sector.
- **Nationalisation** : Involves in selling / moving privately-owned asset to the public sector.

## Advantages of Nationalisation

- Government's decisions concern on the **full costs and benefits. (Social cost and Social Benefits)**
- It is important to **ensure that basic needs** (eg. Transportation , electricity , water supplied ) charge low prices and provide good quality, as everyone in the economy depends on them.
- They can be used to **influence economic activity**. eg. Public sector can be directly encouraged to **increase their country's output and stimulate economic growth**.
- It is more practical to have **only one firm** in the industry eg. Infrastructure. **Governments can plan and coordinate easier.**

## Disadvantages of Nationalisation

- Due to **lack of competition and experience**, nationalisation could **becomes inefficient**. Goods and services could be produced in **low quality and charge in highly price**.
- Due to large size of the organisation, nationalisation can be difficult to manage and control. As a result, this could lead to **slow decision-making**.
- Governments can **subsidise some losses**. Governments might need to **collect more tax or reduce budget to spend on other products**.

# 7. Privatisation and Nationalisation

- **Privatisation** : Involves in selling / moving state-owned asset ( Public sector ) to the private sector.
- **Nationalisation** : Involves in selling / moving privately-owned asset to the public sector.

## Advantages of Privatisation

- Due to **high competition and experience**, privatisation could become **efficient**. Goods and services could be produced in **high quality and charge in lower price**.
- Due to small/medium size of the organisation, privatisation can be **easy to manage and control**. As a result, this could lead to **faster in decision-making**.
- Private firms are responsible for losses or profit.  
**Governments no need to subsidise some losses.**  
Therefore, governments **no need to collect more tax** or have **higher budget to spend on other products**.

## Disadvantages of Privatisation

- Private firm's decisions **not concern on the full costs and benefits. (Social cost and Social Benefits)**
- Some basic needs (eg. Transportation , electricity , water supplied ) **can be charged high prices. Therefore, the standard of living could be lower.**

## 8. Direct provision of goods

: Government might **provides essential goods and services to everyone in the economy**. Eg.

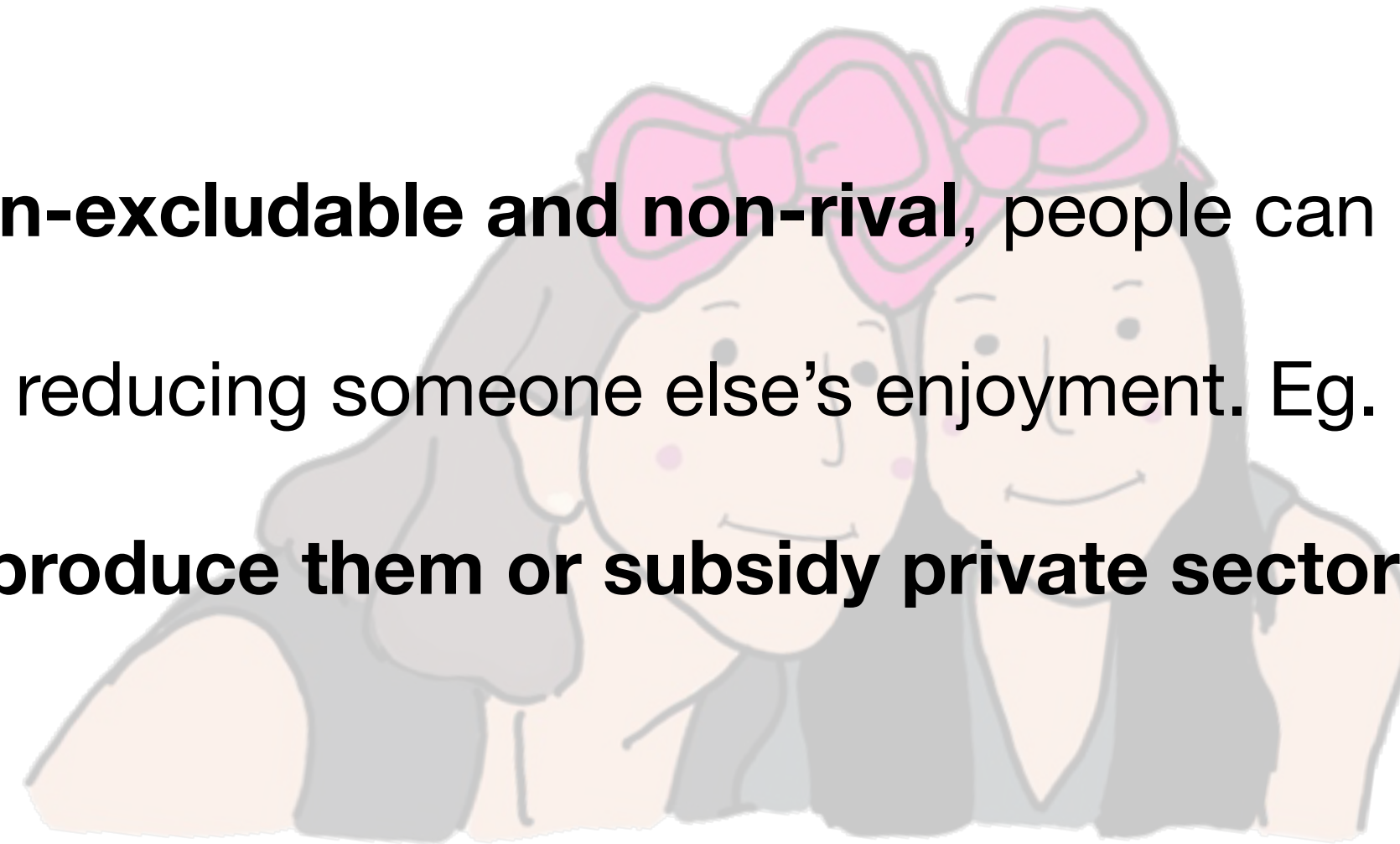
Accommodation, Food etc.

: Or Since **some goods are non-excludable and non-rival**, people can enjoy benefits without paying it and people can enjoy goods by not reducing someone else's enjoyment. Eg. Street light

—> This is why **governments produce them or subsidy private sector** to make them by raising finance through taxation.

: Or **Some goods are under-consumed** since private sector not concern on benefits to third parties. Eg.

Merit goods (Healthcare, Education)



# Knockout Economics



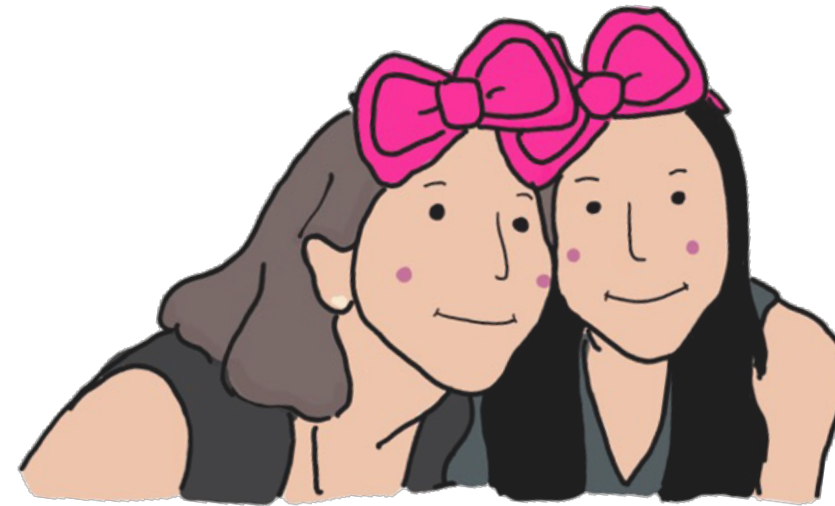
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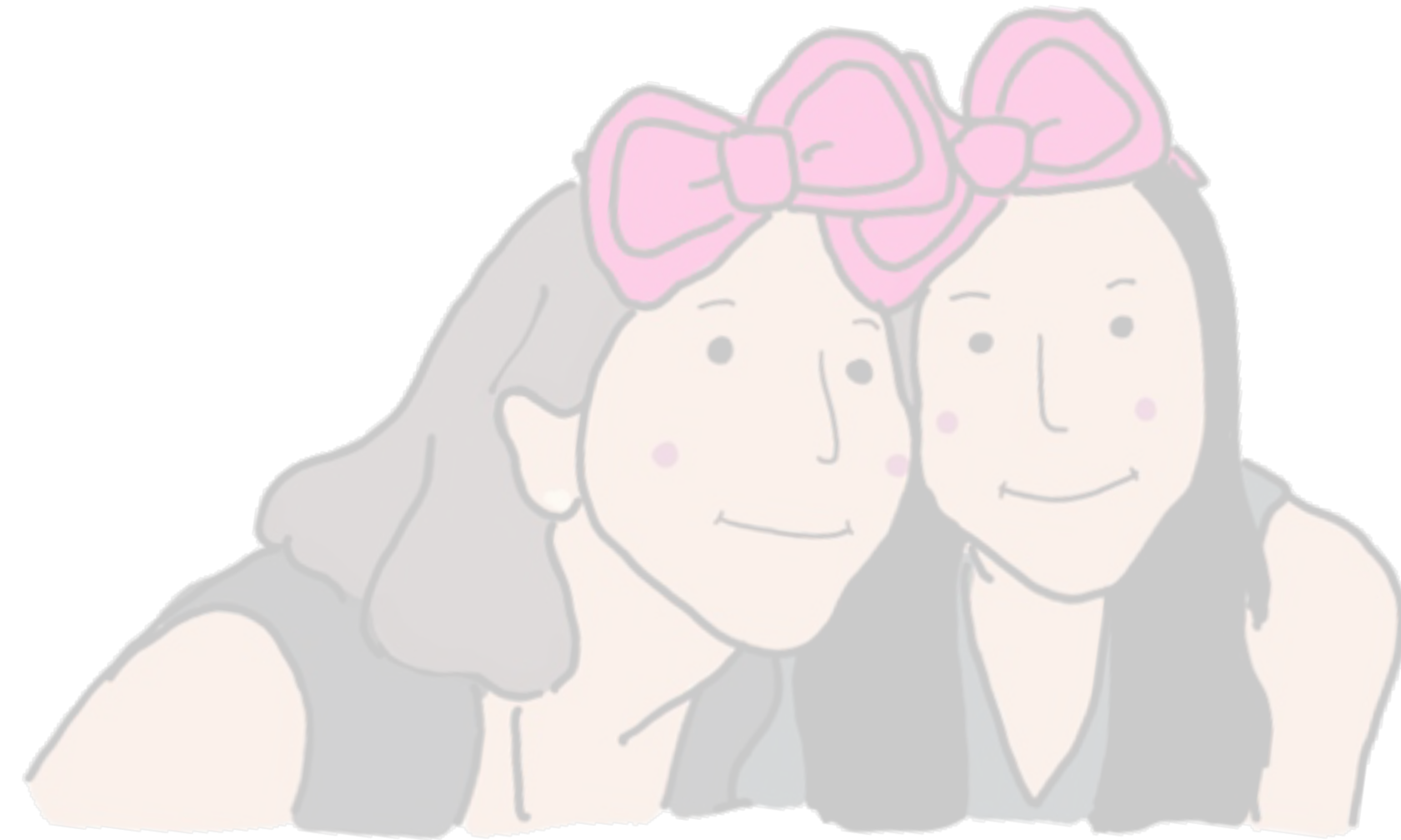


# **MICROECONOMICS - Government failure**

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# Overview

## 1. Government failure



# Disadvantages of government intervention

## Disadvantages of government intervention (Government Failure)

- **Governments can take long time to make decision.**

- Highly Bureaucratic
- Government might takes time to introduce policy.

- **Government intervention may be influenced by desire to win political issues**

- Governments may reject to increase tax on alcohol, even concerns about the healthcare and society. This is because it is politically unpopular and may lose it votes.

- **Governments might concern only personal benefits which leads to corruption.**

- Misuse of government power for other purposes.
- Eg. Lobbying, Bribery.

# Overview

## Disadvantages from government intervention (Government Failure)

- **It is difficult to determine quantity of public goods, merit goods to supply.**

- **Government intervention can also increase economic inefficiency.**

- Since it is difficult to calculate external cost and benefits in monetary value. As a result, governments cannot allocate resources to achieve social optimum point.

- Since governments provide unemployment benefits and imposes high income tax, workers might be discouraged from work. As a result, there will be higher unemployment in the economy.
- Corporate taxes can reduce firms' willingness and ability to invest (higher tax leads to lower retained profit)

# Knockout Economics



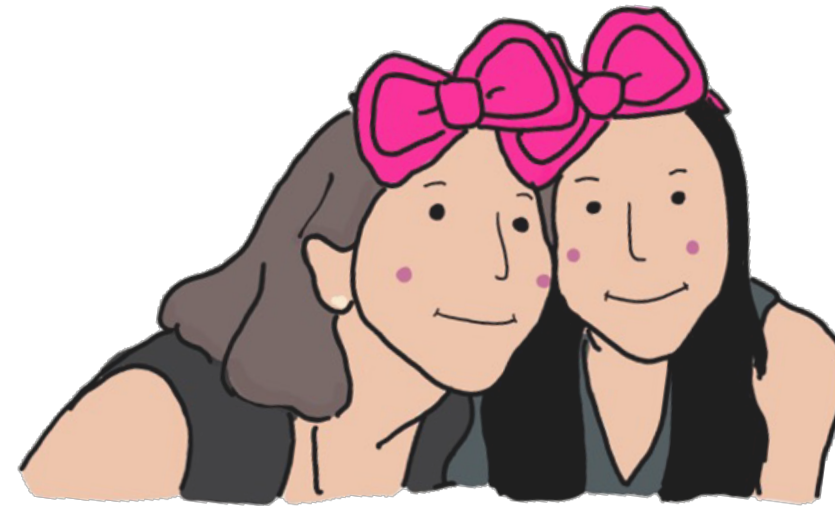
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# **MICROECONOMICS - Exercise - A mixed economic system**

By Kru P'Eve and Kru P'Da Knockout.Economics

## Exercise: MCQ

**1. What is most likely to be the responsibility of a central government?**

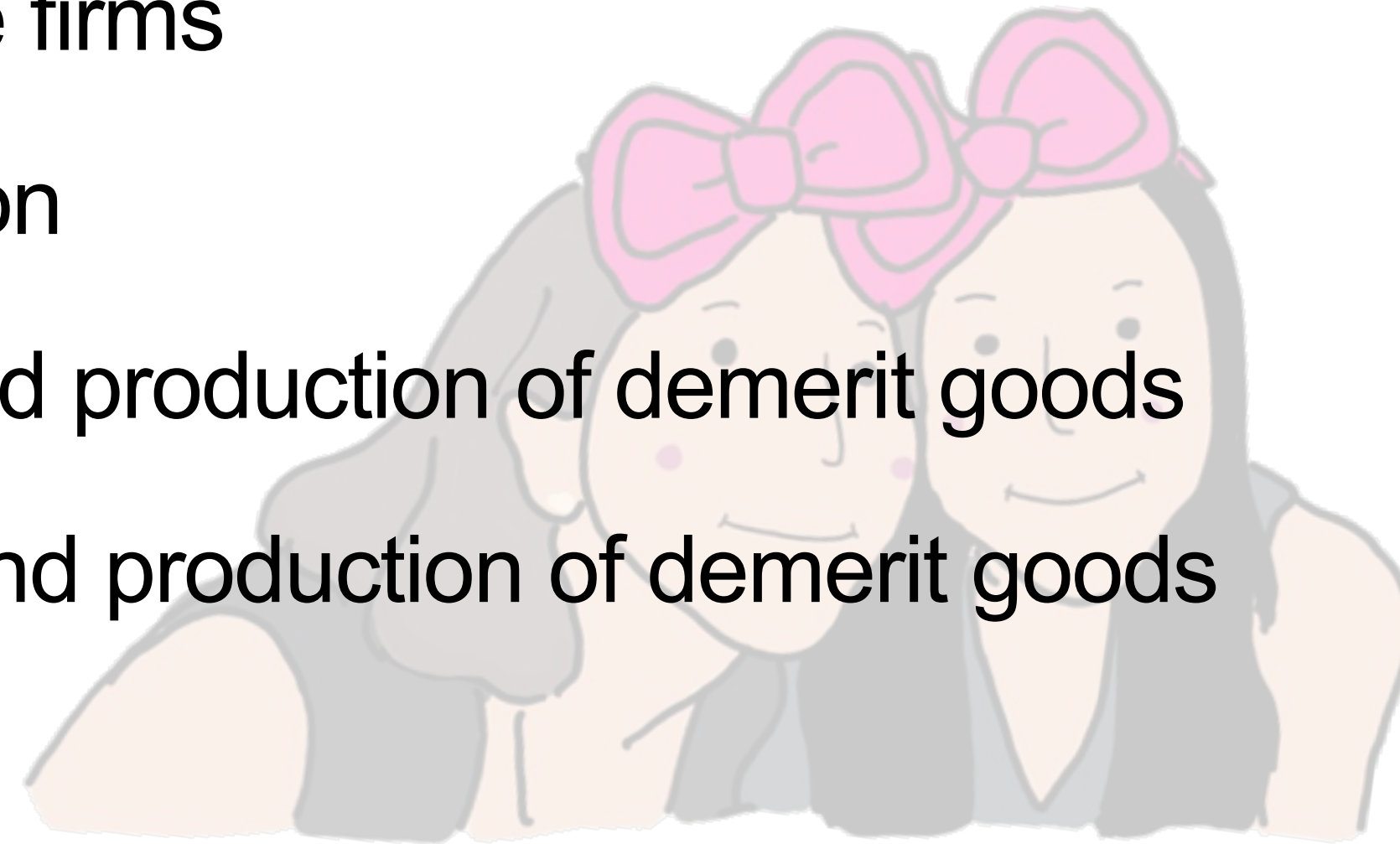
- A. the provision of housekeeper in private village.
- B. the provision of security cameras in shopping centre.
- C. the provision of security staff at a amusement park
- D. the provision of street light



## Exercise: MCQ

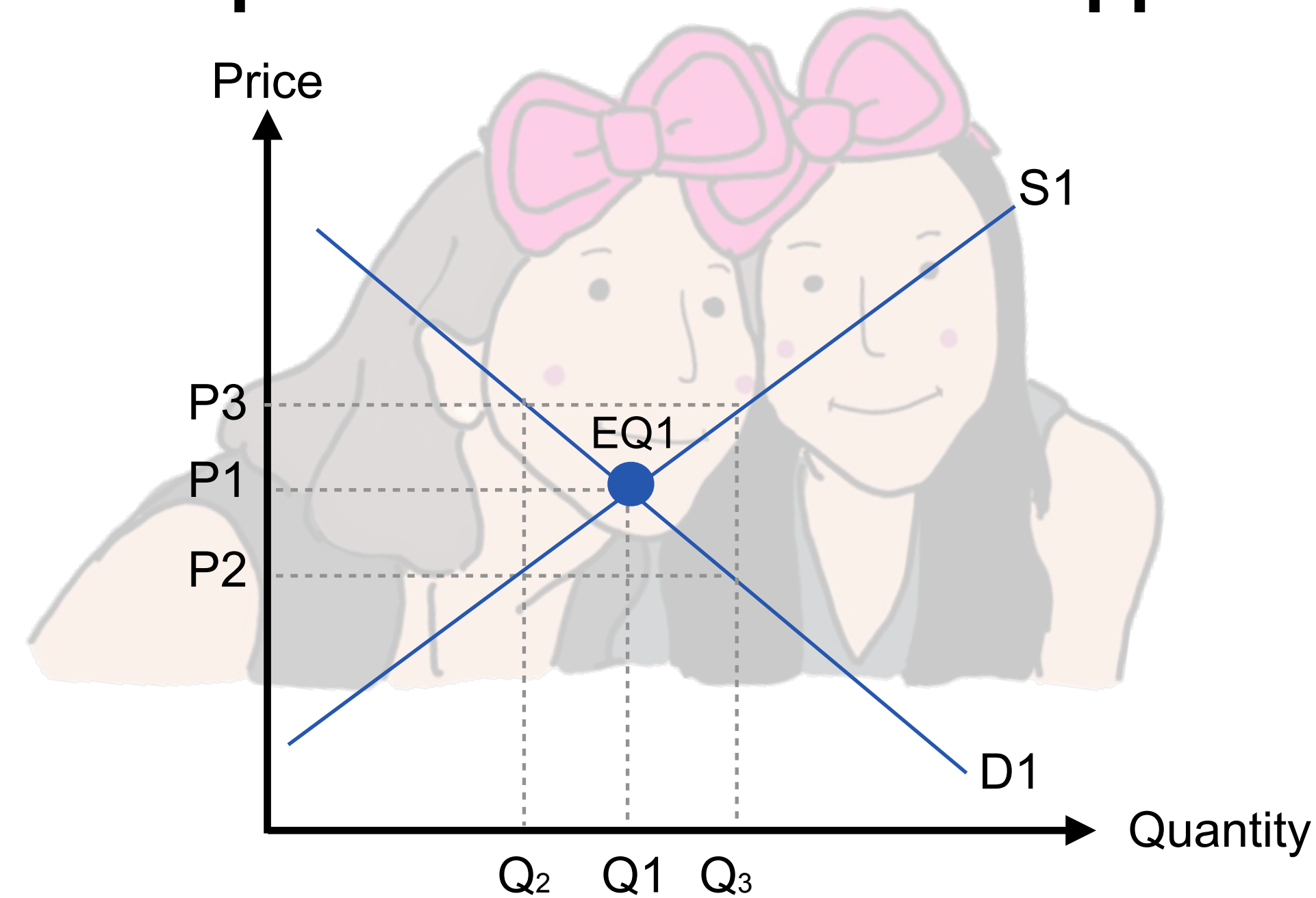
### 2. Why government imposes tax on some goods and services ?

- A. Increase profit for private firms
- B. Reduce cost of production
- C. Reduce consumption and production of demerit goods
- D. Increase consumption and production of demerit goods



## Exercise: MCQ

3. The diagram represents the market for a rice. The equilibrium is at point EQ1. The government imposes minimum price at P2. What will happen in the market as a result.



- A. The market equilibrium will remain the same.
- B. The quantity demanded will rise to Q<sub>3</sub>.
- C. The quantity supplied will fall to Q<sub>2</sub>.
- D. There will be a surplus.

# Exercise: Essay

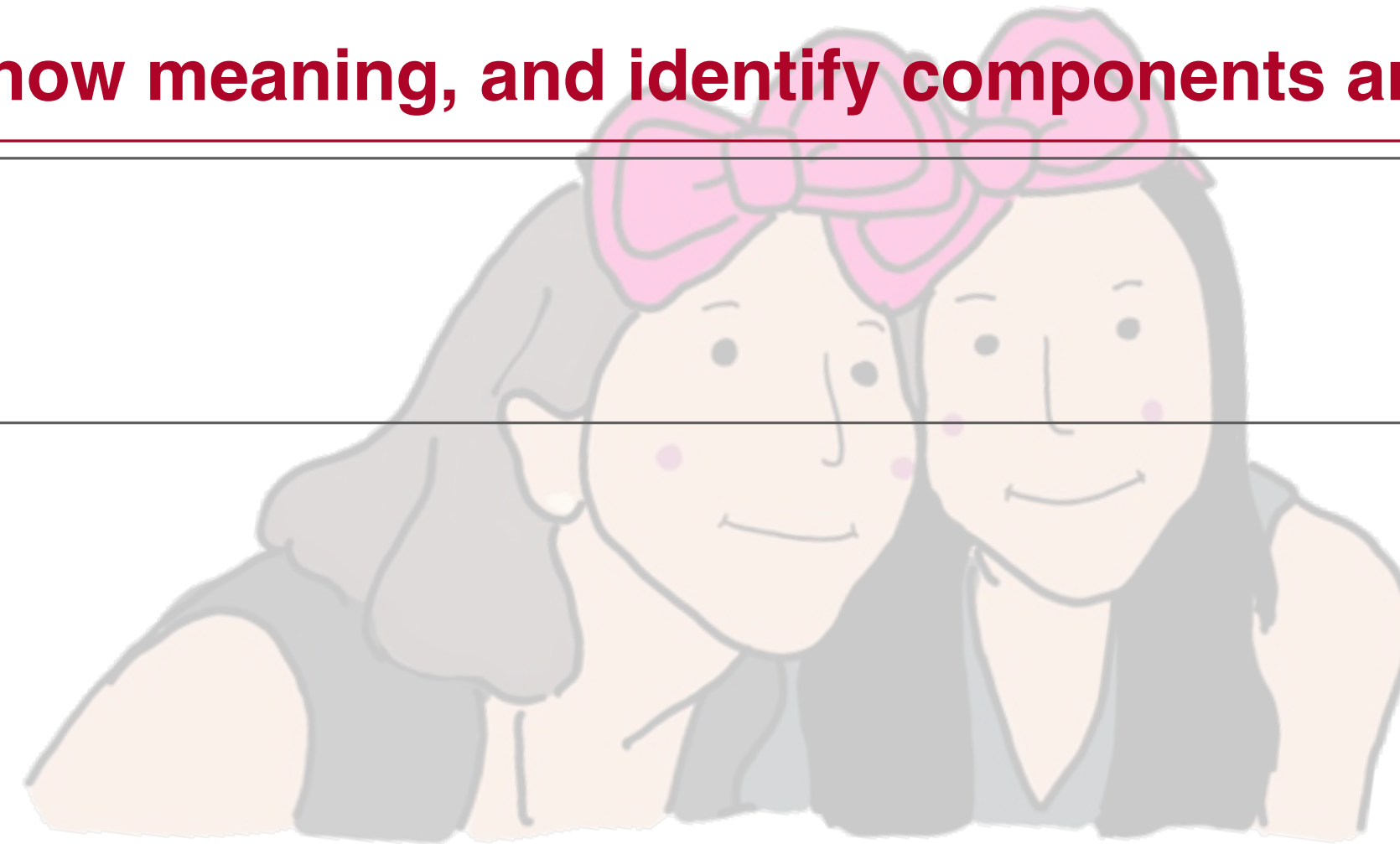
**1. Analyse with the diagram, why indirect tax can reduce consumption of demerit goods. [6 marks]**

**Command Word:**

**Analyse: examine in detail to show meaning, and identify components and the relationship between them**

**Knockout.tips**

- **Up to 4 marks** : Diagrams
- **Up to 2 marks** : Explanation



# Exercise: Essay

2. Discuss whether or not a government should impose a maximum price on accommodation. [8 marks]

**Command Word:**

**Discuss: Set out both sides of an argument (For and against)**

**Knockout Tips: For / Against + Supporting details**

**For**

**Against**

# Knockout Economics



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