

Government Intervention — Worksheet

Controlling monopolies and mergers · promoting competition and contestability · protecting suppliers and employees · the impact and limits of intervention · intervention in labour markets

Name: _____

Class: _____

Date: _____

DEFINE regulatory capture · **EXPLAIN** why a network of water pipes is a natural monopoly, and how a maximum wage affects employment · **CLASSIFY** a rule for a firm with monopoly power as price regulation, profit regulation, a quality standard or a performance target · **CALCULATE** a CPI – X price cap, and a percentage change in profit · **ANALYSE** the effects of a tax on employing workers and of a performance target · **EXAMINE** the impact of a price cap on the customers of a monopoly · **DISCUSS** whether an information gap is the main reason for a rise in profit · **EVALUATE** measures that promote competition and contestability

Sitting 1 — Topic practice

30 marks

MULTIPLE CHOICE Task 1 — Six questions on government intervention

6 marks

Choose one answer for each question.

1. Competitive tendering for a city's rubbish collection is intended mainly to:

- A raise the charge paid by households
- B keep private firms out of the service
- C give one firm the service without bidding
- D lower the cost of the service to the city

Answer:

2. A law requiring large supermarkets to pay small farmers within thirty days mainly restricts:

- A the monopsony power of the supermarkets
- B the monopoly power of the farmers who sell to them
- C competition between supermarkets
- D imports of food from abroad

Answer:

3. Lindo's government stops foreign suppliers from selling steel in Lindo. Nothing else changes. Which group in Lindo is most likely to be worse off?

- A firms that make steel in Lindo
- B workers at Lindo's steel plants
- C firms in Lindo that make cars from steel
- D firms that sell iron ore to Lindo's steel plants

Answer:

4. The largest fine a competition authority may impose is less than the profit a cartel makes. This limit to intervention is:

- A regulatory capture
- B inadequate resources
- C lack of regulatory power
- D trade liberalisation

Answer:

5. A case for intervention in labour markets on grounds of equity (fairness in who earns what) is based mainly on:

- A workers being unable to move to where jobs are
- B firms investing in more capital than they need
- C full-time work that can still leave a family in poverty
- D regulators relying on firms for information

Answer:

6. Which measure is aimed mainly at geographical immobility of labour?

- A a subsidised evening course in computer coding
- B a grant towards the cost of moving for a job
- C a law requiring equal pay for equal work
- D a cut in the rate of corporation tax

Answer:

DEFINE Task 2 — The meaning of regulatory capture

2 marks

Define the term regulatory capture.

regulatory capture

EXPLAIN Task 3 — A maximum wage for surgeons in Ravia

4 marks

Ravia has many private hospitals, and no single hospital can set the pay of its surgeons. Surgeons earn the equilibrium wage of \$150 an hour. In 2026, the government sets a maximum wage of \$120 an hour for all hospital staff. Nothing else changes.

Explain the likely effect of the maximum wage on the number of surgeons employed in Ravia.

CLASSIFY Task 4 — Rules for firms with monopoly power

8 marks

Each rule below is set by a regulator for a firm that is the only supplier in its market.

Write the type of regulation for each rule.

Key: Price regulation · Profit regulation · Quality standard · Performance target

#	The rule	Type of regulation
1	Drinking water from the network must never contain more lead than a safe limit	
2	The gas network may raise its charge for each unit by no more than inflation minus 1.5% a year	

#	The rule	Type of regulation
3	The rail operator loses part of its income if fewer than 95% of its trains arrive on time over the year	
4	The power network may earn no more than 7% a year on the value of its equipment and buildings	
5	The rail company's fare for any journey in 2027 may be no higher than \$12	
6	Every new gas pipe must be strong enough to hold a set pressure	
7	Each year, the water firm may earn no more than 6% of the money it has invested in pipes and pumping stations	
8	The power network receives a reward if its average time to restore supply after a power cut this year is under four hours	

CALCULATE

Task 5 — A price cap for gas in Pelna

4 marks

Pelna Gas owns the only gas network in Pelna. Its regulator sets a CPI – X price cap, where CPI is the consumer price index. In 2025, the cap is \$40.00 a unit. For 2026, inflation measured by the CPI is 7.5%, and X is 2.0%.

Calculate the price cap for 2026, in dollars to two decimal places, showing the allowed percentage change first.

The allowed percentage change in the price cap for 2026

Workings

Answer: %

The price cap for 2026, in dollars to two decimal places

Workings

Answer: \$

Many firms in Sorva's port employ dock workers, and no single firm or worker can set the wage. Dock workers earn \$15 an hour, the equilibrium wage, and 6,000 are employed. From 2026, firms must pay a tax of \$2 for each hour a dock worker works. Nothing else changes.

Analyse how the tax on employing dock workers is likely to affect the wage dock workers receive and their employment.

Knowledge — name and explain the economic idea (2)

Application — use the facts about Sorva's dock workers (2)

Analysis — your chain of reasoning (2)

Sitting 2 — Mock section

54 marks

Source: Water in Darsa

- 1 Darsa Water owns the only network of water pipes in Darsa. A second network would cost about as much as the first, and it would serve the same homes. The state owned Darsa Water until 2015, when the government sold it to private owners.
- 2 A regulator sets the highest price that Darsa Water may charge for each unit of water. Each year, this price cap may rise by the inflation rate, measured by the consumer price index (CPI), minus X. X has been 2% since 2015. From 2022 to 2025, inflation in Darsa was between 3% and 6% a year. Figure 1 shows the cap, Darsa Water's profit and other figures.
- 3 The regulator sets the cap from cost figures that Darsa Water reports. There is no other water firm in Darsa to compare these figures with. In 2025, water firms in two neighbouring countries reported costs for each unit that were about 20% lower than Darsa Water's.
- 4 Households say that burst pipes now take longer to repair. From 2026, the regulator plans a performance target: Darsa Water must repair 90 in every 100 burst pipes within a day over the year, or pay money back to its customers.

Figure 1: Darsa Water, 2022 to 2025

Year	Price cap (\$ a unit)	Profit (\$ million)	Engineers employed	Burst pipes repaired within a day (%)
2022	2.00	80	1,200	92
2023	2.08	86	1,100	88

Year	Price cap (\$ a unit)	Profit (\$ million)	Engineers employed	Burst pipes repaired within a day (%)
2024	2.12	91	1,000	83
2025	2.15	98	900	78

CALCULATE Task 7 — The change in profit at Darsa Water

2 marks

Using Figure 1, calculate the percentage change in Darsa Water's profit between 2022 and 2025, to one decimal place.

Percentage change in profit, 2022 to 2025, to one decimal place

Workings

Answer: %

EXPLAIN Task 8 — One network of water pipes in Darsa

4 marks

With reference to the source, explain why Darsa's water supply is a natural monopoly.

ANALYSE Task 9 — The planned performance target

6 marks

With reference to the source, analyse two likely effects of the planned performance target on Darsa Water.

Knowledge — one economic idea for each effect, and what it means (2)

Application — one fact from the source for each effect (2)

Analysis — one chain for each effect (2)

EXAMINE

Task 10 — The price cap and the customers of Darsa Water

8 marks

With reference to the source, examine the likely impact of the price cap on Darsa Water's customers.

Knowledge — name and explain the economic ideas (2)

Application — use two facts from the source (2)

Analysis — one chain for the effect on price and one for the effect on quality (2)

Evaluation — say what the impact depends on (2)

DISCUSS Task 11 — The rise in profit at Darsa Water

14 marks

With reference to the source, discuss whether an information gap is the main reason Darsa Water's profit rose, illustrating your answer with a diagram.

Diagram

Knowledge — draw a diagram of Darsa Water's market: "Price and cost (\$ a unit)" and "Output (units a day)" on the axes, $D = AR$, AC for the network's true costs, AC_2 for the costs Darsa Water reports, and the price cap (2)

Application — use one fact from the source for the information gap as the main reason and one against (2)

Analysis — two chains, one for the information gap as the main reason and one against (4)

Evaluation — weigh the two chains and say what the answer depends on (6)

EVALUATE Task 12 — Competition in telecoms

20 marks

In some countries, the state owns the only telecoms network, and the law allows no other firm to build one. Evaluate measures that a government could use to promote competition and contestability in a telecoms market with one state-owned network.

Knowledge — explain what competition and contestability mean, and name two measures (3)

Application — apply each measure to a telecoms market (3)

Analysis — one chain for each of two measures (6)

Evaluation — weigh the two measures, say what their effect depends on, and judge (8)

[illegible]

EVALUATE **Task 13 – Your judgement in one sentence** *Not marked. One sentence: your judgement on Task 12.*

Write the one sentence that answers Task 12's question.



This sheet and its answers online: revvylearn.com/w/e3-government-intervention-firms

Answers and mark scheme: [revvylearn.com/w/e3-government-intervention-firms/answers](https://www.revvylearn.com/w/e3-government-intervention-firms/answers)

Marks and levels follow the IAL Economics paper; mark your work against the answers page - this is not Edexcel's marking.

Revision 89236b95