IGCSE ECONOMICS · 1.2 BUSINESS ECONOMICS · CHAPTER 24 · PAPER 1

Government Intervention

Topic question sheet L24 | **Total: 30 marks** | **Time: 35 minutes** | **Student Book pp. 181–191**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 The introduction of a minimum wage above equilibrium in a labour market will: **(1)**

A raise employment and lower the wage
B raise the wage and increase employment
C raise the wage and increase unemployment
D reduce the wage but boost employment

2 Which of the following is an example of an anti-competitive practice? **(1)**

A Product differentiation
B Advertising
C Paying high wages
D Price fixing

3 Which measure is used to deal with a negative externality? **(1)**

A A subsidy on pollution
B A pollution permit system
C A minimum wage
D Lower barriers to entry

4 A law saying goods must be ‘fit for purpose’ mainly aims to: **(1)**

A protect consumers
B limit mergers
C raise wages
D reduce externalities

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 Define a **minimum wage**. **(1)**

6 Calculate Vox’s market share if it buys Tilo. You are advised to show your working. **(2)**

7 State **two** ways a government can promote competition. **(2)**

8 Draw a labour market diagram to show the effect of a minimum wage set above the equilibrium wage. **(3)**

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Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: Telecom Merger in Sundara

In the fictional country of Sundara, four mobile networks compete: Vox (38%), Link (27%), Wave (21%) and Tilo (14%). Vox wants to buy Tilo for US$2.4 billion.

Vox says the merger would save US$300 million a year and pay for 5G coverage in rural areas. The competition authority is worried that prices would rise because the two largest firms would control 79% of the market. It is considering allowing the deal only if Vox freezes prices for three years.

Fictional case, written for this sheet.

9 With reference to the extract, analyse why the competition authority might be concerned about the merger. **(6)**

10 With reference to the extract, evaluate whether the competition authority should allow the merger. **(12)**

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Mark scheme: Government Intervention

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *The introduction of a minimum wage above equilibrium in a labour market will: (1 mark)*

Answer: C (raise the wage and increase unemployment). Demand for labour falls; supply rises.

2 *Which of the following is an example of an anti-competitive practice? (1 mark)*

Answer: D (Price fixing). Firms agree prices to avoid competition.

3 *Which measure is used to deal with a negative externality? (1 mark)*

Answer: B (A pollution permit system). Permits limit pollution.

4 *A law saying goods must be 'fit for purpose' mainly aims to: (1 mark)*

Answer: A (protect consumers). Consumer protection legislation.

Section B

5 *Define a minimum wage. (1 mark)*

The minimum amount per hour which most workers are legally entitled to be paid (1).

6 *Calculate Vox's market share if it buys Tilo. You are advised to show your working. (2 marks)*

Working: 38% + 14% (1).

Answer: 52% (1).

7 *State two ways a government can promote competition. (2 marks)*

Any two (1 each): help small firms; lower barriers to entry; anti-competitive legislation; limit monopoly power; control mergers.

8 *Draw a labour market diagram to show the effect of a minimum wage set above the equilibrium wage. (3 marks)*

Axes wage rate and quantity of labour (1); minimum wage line above equilibrium (1); employment falls QL1 → QL2 with excess supply shown (1).

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Section C

9 *With reference to the extract, analyse why the competition authority might be concerned about the merger. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): mergers reduce competition; risk of higher prices/less choice.

Application (2): Vox would have 52%; top two control 79%; only three networks left.

Analysis (2): fewer rivals means less pressure on price; Vox could act as a price maker; consumers can't easily switch.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, evaluate whether the competition authority should allow the merger. (12 marks · levels)*

For: US$300m savings (economies of scale); rural 5G investment; conditions (3-year price freeze) protect consumers.

Against: 52% share and 79% for top two; price freeze only temporary; less choice and innovation in the long run.

Judgement: allow only with strong, monitored conditions, perhaps longer than three years; depends on whether savings are passed on.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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