

## Summary

### 2.7 Role of government in microeconomics

Subject	Year	Start date	Duration
Economics	IB1	Week 4, October	<b>6 weeks</b> 14 hours

#### Course Part

#### 2. Microeconomics

#### Description

**2.7 The role of the government in microeconomics**, you should be able to:

- Be familiar with the following economics terminology: demerit goods, price ceiling, price floor, indirect (Pigouvian) taxes, subsidy, parallel markets, non-price rationing methods, nationalisation, public goods, infrastructure, legislation, regulation, and consumer nudges.
- Explain reasons for government intervention in markets.
- Construct a price ceiling diagram.
- Analyse the consequences of implementing a price ceiling.
- Discuss the consequences of a price ceiling for different stakeholders.
- Discuss solutions to price ceilings.
- Construct a price floor diagram.
- Analyse the consequences of implementing a price floor.
- Discuss the consequences of a price floor for different stakeholders.
- Discuss solutions to price floors.
- Calculate the effects of price ceilings and price floors from diagrams.
- Construct an indirect tax diagram.
- Analyse the consequences of implementing an indirect tax.
- Discuss the consequences of an indirect tax for different stakeholders.
- Calculate the effects of indirect taxes from diagrams.
- Construct a subsidy diagram.
- Analyse the consequences of implementing a subsidy.
- Discuss the consequences of a subsidy for different stakeholders.
- Calculate the effects of subsidies from diagrams.
- Evaluate the government's ability to provide services directly.
- Distinguish between legislation and regulation.
- Discuss measures of command and control legislation and regulation.
- Evaluate examples of consumer nudges

## Inquiry & Purpose

### Inquiry / Higher Order Questions

Type	Inquiry Questions
Skills-based	The impact of a price floor or price ceiling in a chosen market. •
Skills-based	The impact of a government policy to correct market failure resulting from externalities.

## Curriculum

### Objectives

#### **Use and application of appropriate skills (AO4)**

Produce and use diagrams to help explain economic theory, concepts and real-world issues

### Syllabus Content

#### **1: Microeconomics**

##### 1.3 Government intervention

Specific (fixed amount) taxes and ad valorem (percentage) taxes and their impact on markets:

Explain why governments impose indirect (excise) taxes.

Distinguish between specific and ad valorem taxes.

Draw diagrams to show specific and ad valorem taxes, and analyse their impacts on market outcomes.

Discuss the consequences of imposing an indirect tax on the stakeholders in a market, including consumers, producers and the government.

HL only: Tax incidence and price elasticity of demand and supply:

Explain, using diagrams, how the incidence of indirect taxes on consumers and firms differs, depending on the price elasticity of demand and on the price elasticity of supply.

Plot demand and supply curves for a product from linear functions and then illustrate and/or calculate the effects of the imposition of a specific tax on the market (on price, quantity, consumer expenditure, producer revenue, government revenue, consumer surplus and producer surplus).

Impact on markets:

Explain why governments provide subsidies, and describe examples of subsidies.

Draw a diagram to show a subsidy, and analyse the impacts of a subsidy on market outcomes.

Discuss the consequences of providing a subsidy on the stakeholders in a market, including consumers, producers and the government.

HL only: Plot demand and supply curves for a product from linear functions and then illustrate and/or calculate the effects of the provision of a subsidy on the market (on price, quantity, consumer expenditure, producer revenue, government expenditure, consumer surplus and producer surplus).

Price ceilings (maximum prices): rationale, consequences and examples:

Explain why governments impose price ceilings, and describe examples of price ceilings, including food price controls and rent controls.

Draw a diagram to show a price ceiling, and analyse the impacts of a price ceiling on market outcomes.

Examine the possible consequences of a price ceiling, including shortages, inefficient resource allocation, welfare impacts, underground parallel markets and non-price rationing mechanisms.

Discuss the consequences of imposing a price ceiling on the stakeholders in a market, including consumers,

producers and the government.

HL only: Calculate possible effects from the price ceiling diagram, including the resulting shortage and the change in consumer expenditure (which is equal to the change in firm revenue).

Price floors (minimum prices): rationale, consequences and examples:

Explain why governments impose price floors, and describe examples of price floors, including price support for agricultural products and minimum wages.

Draw a diagram of a price floor, and analyse the impacts of a price floor on market outcomes.

Examine the possible consequences of a price floor, including surpluses and government measures to dispose of the surpluses, inefficient resource allocation and welfare impacts.

Discuss the consequences of imposing a price floor on the stakeholders in a market, including consumers, producers and the government.

HL only: Calculate possible effects from the price floor diagram, including the resulting surplus, the change in consumer expenditure, the change in producer revenue, and government expenditure to purchase the surplus.

## ATL Skills

### Approaches to Learning

#### Thinking

- In this unit, we will
  - set students a task which required higher-order thinking skills (such as analysis or evaluation)
  - build on a specific prior task


#### Research

- In this unit, we will
  - require students to record their search for sources in steps (types of search engines, search terms, and so on)

## Developing IB Learners

### Learner Profile

 Inquirers

 Reflective