

Government intervention in markets

7 questions · 190 marks

Answer all questions. The marks available are shown against each part. Every question is taken unaltered from a past paper; the source is noted beneath it. Some questions are taken from higher level papers, where they examine the same standard level content.

Section A · Extended response

6 questions · 150 marks

Answer on lined paper. Draw every diagram asked for, fully labelled.

1.
 - (a) Explain how **one** determinant of demand might lead to a decrease in the price of wheat **and** how **one** determinant of supply might lead to an increase in the price of wheat. [10] 25 marks
 - (b) Using real-world examples, evaluate the view that price floors (minimum prices) should never be used. [15]

— IB 2224 – 5108 Economics · May 2024 Paper 1 TZ1 SL, Question 1

2.
 - (a) Explain the impact of a price floor on market outcomes. [10] 25 marks
 - (b) Discuss the consequences for different stakeholders when the government imposes a price ceiling on a market. [15]

— IB 8820 – 5110 Economics · November 2020 Paper 1 SL, Question 2

3.
 - (a) Explain why a decrease in the supply of a good would normally lead to an increase in its price, while an increase in the price of a good would normally lead to more of it being produced. [10] 25 marks
 - (b) Using real-world examples, evaluate the view that the fixing of maximum prices by governments will always have negative effects on markets and stakeholders. [15]

— IB 8824 – 5109 Economics · November 2024 Paper 1 TZ2 SL, Question 1

4.
 - (a) Explain **two** reasons why a government might impose indirect taxes. [10] 25 marks
 - (b) Discuss the view that price floors are more effective than subsidies in providing assistance to producers in the agricultural sector. [15]

— IB 2221 – 5111 Economics · May 2021 Paper 1 TZ1 SL, Question 2

5.
 - (a) Explain the impact on consumers, producers and the government of a price floor being introduced in an agricultural market. [10] 25 marks
 - (b) Evaluate the view that a price ceiling is an ineffective policy to protect low-income consumers. [15]

— IB 8821 – 5110 Economics · November 2021 Paper 1 SL, Question 2

6.
 - (a) Explain why the price elasticity of supply (PES) for primary commodities is generally lower than the PES for manufactured products. [10] 25 marks
 - (b) Using real-world examples, discuss the consequences for markets **and** stakeholders of an increase in indirect tax on a good or service. [15]

— IB 2225 – 5204 Economics · May 2025 Paper 1 TZ3 HL, Question 1

Section B • Data response

1 question • 40 marks

Answer on lined paper. Draw every diagram asked for, fully labelled.

7. Read the extracts and answer the questions that follow.

40 marks

Text C — Overview of the economy and government policies in Malaysia

- 1 Malaysia, located in Southeast Asia, is an upper-middle-income country. While aiming to increase incomes further, mainly through trade and foreign direct investment (FDI), the government also has the objectives of reducing carbon emissions and inequality. Annual rates of economic growth have been averaging between 4 % and 5 % in the early 2020s.
- 2 Inflation in the early 2020s has been low, despite rising global prices. However, unemployment is high, particularly among young people. Real wages in many jobs are lower than four years ago. Therefore, a deflationary (recessionary) gap exists and real gross domestic product (GDP) is below its potential. **Fiscal policy** could be more expansionary, because government debt is not very large.
- 3 Absolute poverty has been eliminated, but income inequality remains high because there are many low-income and unskilled workers in the informal sector. In addition to spending on education and health, the government provides subsidies for necessities, such as gasoline, flour and electricity. However, high-income households often benefit more from subsidies than low-income households. For example, high-income households represent 10 % of electricity users, but they receive over 50 % of the energy subsidies. There are also concerns that subsidies for gasoline add to government spending and have caused external costs to rise due to cars being used more.
- 4 The government is considering targeted measures, such as providing electricity subsidies only to low-income households. In addition, from May 2022, the minimum wage was increased by 30 %. Although there were concerns that this might increase unemployment, research studies into the effects of a previous rise in the minimum wage in Malaysia show that it increased labour productivity by motivating workers, reduced unemployment by increasing consumption, and increased the labour force participation rate, particularly for females.
- 5 Government spending is promoting growth by spending on infrastructure, accelerating innovation, and providing subsidies or loans with low interest rates for agriculture and fishing. In addition, the government is increasing growth in potential output by raising labour productivity through investment in human capital, with measures to improve schooling and nutrition.
- 6 Malaysia has consistently had a current account surplus through the early 2000s. Import tariffs have been reduced, because Malaysia is a member of two large free trade areas. However, administrative barriers to trade are high and the International Monetary Fund recommends their removal.
- 7 The central bank of Malaysia manages the exchange rate of the ringgit (Malaysia's currency) by using reserve assets. Some trading partners suggest that the ringgit is an undervalued currency. There are financial market regulations affecting the inflows and outflows of FDI and portfolio investment, because the flows are large and volatile. However, transactions on the capital and financial accounts of the balance of payments are gradually being liberalized.

Text D — Environmental policies in Malaysia

- 1 The Malaysian government is committed to a 55 % reduction in carbon emissions, which are mostly due to electricity generation and private transportation. Therefore, many government investments are in green projects.
- 2 The government is implementing measures to encourage the use of renewable energy, rather than fossil fuels, to generate energy so that the output of energy becomes closer to the socially optimum output. A **tradable permits** scheme for emissions is being considered and the subsidies on gasoline may be restricted. Carbon taxes, which could generate up to 3 % of GDP in revenue, may also be implemented. Low-income households would be provided with transfer payments as compensation for the resulting higher energy prices.
- 3 Although environmental regulations on firms exist, there is concern that such regulations may be weakened when the government encourages investment by firms. However, the government could make support for investment conditional on firms meeting environmental standards.

Text E — The taxation system in Malaysia

The 2023 budget in Malaysia contained measures to raise more government revenue through additional taxes on luxury goods and e-cigarettes. A study has shown that a 10 % increase in price leads to a 24 % reduction in demand for e-cigarettes by teenagers. Therefore, the tax on e-cigarettes is impacting the markets for other goods, such as tobacco cigarettes. The budget also raised income tax rates for high-earners and reduced the rates for low-earners. Corporate income tax rates were lowered for small and medium-sized firms.

Table 5: Selected data for Malaysia

	2012	2021
Nominal GDP (US dollars (US\$) billion)	314	375
GDP price deflator (base year 2015)	96	111
Population (million)	29.7	33.5
Government (national) debt (% of GDP)	54.6	65.2
Balance of trade in goods and services (US\$ billion)	33.9	26.5
FDI, net inflows (US\$ billion)	8.00	−6.84
Portfolio investment, net inflows (US\$ billion)	−20.7	−4.55
Female labour force participation rate (% of female population ages 15+)	47	52
Absolute poverty (% of population living on less than US\$2.15 (2017 PPP) per day)	0.1	0
Human Development Index (HDI)	0.780	0.803
HDI rank	64	62

Table 6: Gini coefficient data

	2012	2021
Malaysia	0.44	0.41
Thailand	0.39	0.35

- (a) (i) Define the term *fiscal policy* indicated in bold (**Text C**, paragraph **2**). [2]
- (ii) Define the term *tradable permits* indicated in bold (**Text D**, paragraph **2**). [2]
- (b) (i) Using information from **Table 5**, calculate real GDP in 2021 for Malaysia in US\$. [2]
- (ii) Using information from **Table 5** and your answer to (b)(i), calculate real GDP per capita in 2021 for Malaysia in US\$. [1]
- (iii) Sketch a business cycle diagram to show how real GDP can be different from potential output (**Text C**, paragraph **2**). [2]
- (c) Using an AD/AS diagram, explain how an expansionary fiscal policy can remove a deflationary (recessionary) gap (**Text C**, paragraph **2**). [4]
- (d) Using a demand and supply diagram, explain how a subsidy on gasoline increases Malaysian government spending (**Text C**, paragraph **3**). [4]
- (e) Using an exchange rate diagram, explain the possible effect on the exchange rate for the ringgit (Malaysia's currency) of removing administrative barriers to imports (**Text C**, paragraph **6**). [4]
- (f) Using a Lorenz curve diagram, explain the difference in Gini coefficient data between Malaysia and Thailand in 2021 (**Table 6**). [4]
- (g) Using information from the text/data and your knowledge of economics, evaluate whether intervention in markets in Malaysia is meeting the government's economic objectives. [15]

Table 1	United Nations Development Programme, 2022. <i>Human Development Index: India</i> [online] Available at: https://hdr.undp.org/data-center/specific-country-data#/countries/IND [Accessed 26 September 2023] Source adapted. United Nations Development Programme, n.d. <i>Gender Inequality Index (GII)</i> [online] Available at: https://hdr.undp.org/data-center/thematic-composite-indices/gender-inequality-index#/indicies/GI [Accessed 26 September 2023] Source adapted. The World Bank, n.d. <i>Labor force participation rate, female (% of female population ages 15+) (modeled ILO estimate) -India</i> [online] Available at: https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS?locations=IN [Accessed 26 September 2023] Source adapted.
Table 4	The World Bank, n.d. <i>India Overview</i> . [online] Available at: https://data.worldbank.org/country/IN [Accessed 26 September 2023] Source adapted.
Text C	International Monetary Fund, 2022. <i>Malaysia: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Malaysia</i> [online] Available at: https://www.imf.org/en/Publications/CR/Issues/2022/04/28/Malaysia-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-517398#:~:text=IMF%20Staff%20Country%20Reports&text=Malaysia's%20economy%20is%20showing%20signs,of%20multi%2Dpronged%20support%20measures. [Accessed 26 September 2023] Source adapted. The World Bank, 2022. <i>The World Bank in Malaysia: Overview</i> [online] Available at: https://www.worldbank.org/en/country/malaysia/overview [Accessed 26 September 2023] Source adapted. Ministry of Finance, Malaysia, 2022. <i>Total subsidies in 2022 nearly RM80 bln, highest in history – Tengku Zafrul</i> [online] Available at: https://www.mof.gov.my/portal/en/news/press-citations/total-subsidies-in-2022-nearly-rm80-bln-highest-in-history-tengku-zafrul [Accessed 26 September 2023] Source adapted. Jun, S.W., 2023. <i>Deputy finance minister says Malaysia the only country that offers more subsidies to the rich than the poor</i> [online] Available at: https://www.malaymail.com/news/malaysia/2023/02/28/deputy-finance-minister-says-malaysia-the-only-country-that-offers-more-subsidies-to-the-rich-than-the-poor/57219 [Accessed 26 September 2023] Source adapted. Hussain, H. I., 2022. <i>Higher minimum wages cause unemployment, steep inflation? Not necessarily</i> [online] Available at: https://themalaysianreserve.com/2022/03/29/higher-minimum-wages-cause-unemployment-steep-inflation-not-necessarily/ [Accessed 26 September 2023] Source adapted.
Text D	International Monetary Fund, 2022. <i>Malaysia: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Malaysia</i> [online] Available at: https://www.imf.org/en/Publications/CR/Issues/2022/04/28/Malaysia-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-517398#:~:text=IMF%20Staff%20Country%20Reports&text=Malaysia's%20economy%20is%20showing%20signs,of%20multi%2Dpronged%20support%20measures . [Accessed 26 September 2023] Source adapted.
Text E	Ministry of Finance, Malaysia, 2023. <i>Budget 2023 Speech</i> [pdf] Available at: https://belanjawan.mof.gov.my/pdf/belanjawan2023/ucapan/ub23-BI.pdf [Accessed 26 September 2023] Source adapted. Corrigan, J.R., et al., 2021. <i>Estimating the price elasticity of demand for JUUL E-cigarettes among teens</i> [online] Available at: https://www.sciencedirect.com/science/article/pii/S0376871620305718 [Accessed 26 September 2023] Source adapted.
Tables 5 and 6	Data from The World Bank, n.d. <i>World Bank Open Data</i> [online]. Available at: https://data.worldbank.org/ [Accessed 26 September 2023] Source adapted. United Nations Development Programme, 2022. <i>Specific Country Data: Malaysia</i> [online] Available at: https://hdr.undp.org/data-center/specific-country-data#/countries/MYS [Accessed 26 September 2023] Source adapted.