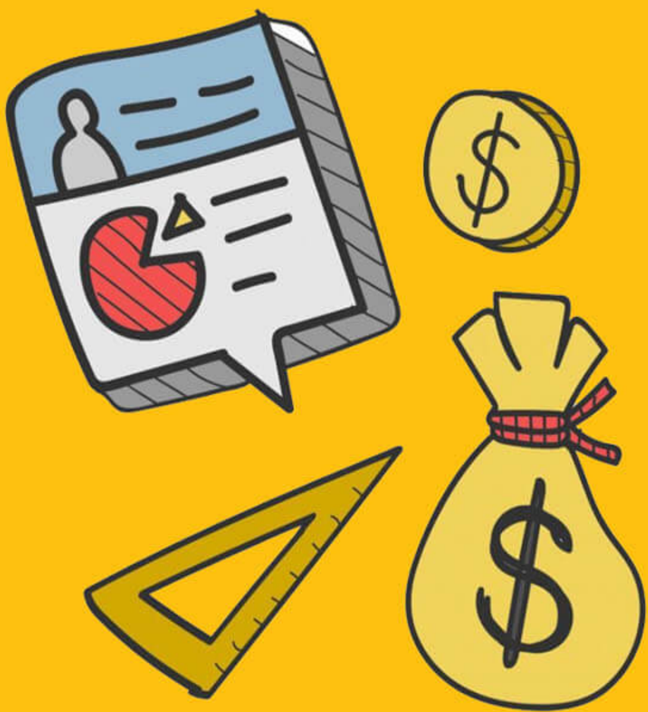
Exam Papers Practice

Public Ownership, Privatisation, Regulation and Deregulation of Markets



AQA A Level Economics
Revision Notes

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The arguments for and against the public ownership of firms and industries

- Nationalisation occurs when private sector assets are sold to the public sector. In other words, the government gains control of an industry, so it is no longer in the hands of private firms.
- The railway industry in the UK was nationalised after 1945.
- By nationalising an industry, natural monopolies are created. This is because it is inefficient to have multiple sets of water pipes, for example. Therefore, only one firm provides water.
- Some nationalised industries yield strong positive externalities. For example, by using public transport, congestion and pollution are reduced.
- Nationalised industries have different objectives to privatised industries, which are mainly profit driven. Social welfare might be a priority of a nationalised industry.

The arguments for and against the privatisation of state-owned enterprises

- Privatisation means that assets are transferred from the public sector to the private sector. In other words, the government sells a firm so that it is no longer in their control. The firm is left to the free market and private individuals.
- It also covers the deregulation of the market.
- For example, British Airways was privatised in the UK and now operates in the competitive market.
- Free market economists will argue that the private sector gives firms incentives to operate efficiently, which increases economic welfare. This is because firms operating on the free market have a profit incentive, which firms which are nationalised do not.
- Since they are operating on the free market, firms also have to produces the goods and services consumers want. This increases allocative efficiency and might mean goods and services are of a higher quality.
  Competition might also result in lower prices.
- By selling the asset, revenue is raised for the government. However, this is only a one-off payment.

Regulation and deregulation

- By using regulation, the government could use laws to ban consumers from consuming a good. They could also make it illegal not to do something. For example,the minimum school leaving age means young people have to be in school until the age of 16, and education or training until they turn 18.
- This has positive externalities in the form of a higher skilled workforce.
- If there was a compulsory recycling scheme, it would be difficult to police and there could be high administrative costs. Bans could be enforced for harmful goods,although they can still be consumed on the black market.
- Firms which fail to follow regulations could face heavy fines, which acts as a disincentive to break the rule.
- It could raise costs of firms, who might pass on the higher costs to consumers.

- By deregulating the public sector, firms can compete in a competitive market, which should also help improve economic efficiency.
- Deregulation is the act of reducing how much an industry is regulated. It reduces government power and enhances competition.
- Excessive regulation is also called ‘red tape’. It can limit the quantity of output that a firm produces. For example, environmental laws and taxes might result in firms only being able to produce a certain quantity before exceeding a pollution permit.

  Excessive taxes, such as a high rate of corporation tax, might discourage firms earning above a certain level of profit, since they do not keep as much of it. This might limit the size that a firm chooses, or is able to, grow to.

The problem of regulatory capture

There is the risk of regulatory capture. This is when regulators start acting in the interests of the company, due to impartial information, rather than in consumer interests. This information disadvantage is a problem for regulators.

The problem of asymmetric information can make it hard to determine what level a price cap should be imposed at.

Without sufficient information, governments could make poor decisions and it could lead to a waste of scarce resources.