1.3 Government intervention

Sub-topic	SL/HL core	HL
Indirect taxes		
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.	
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).
Subsidies		
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.	• 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).

Sub-topic	SL/HL core	HL
Price controls		
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.	• 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.	• 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.