

## BASIC ECONOMICS

### CHAPTER 8: Regulation and Anti-Trust Laws

#### QUESTIONS

1. How does a regulatory commission — whose initial purpose was to prevent a few large companies from unfairly charging high prices because there is no competition — end up supporting a monopoly or oligopoly?

A regulatory commission, intended to stop companies from monopolizing the market, can end up contributing to it. They regulate entry to the market, set up barriers that make it hard for small businesses to compete, and increase compliance costs for everyone.

2. During the COVID pandemic, governments passed orders that businesses shut down temporarily, and when they did open, to operate under scaled-back capacity. What were the economic “ripple effects” of these decisions?

The closures and scaled-back capacity requirements led to economic ripples, such as reduced economic activity, an increase in unemployment, lower tax revenue, and financial difficulties for lots of businesses.

3. Journalists like to describe large companies as using their buying “power” to “force” suppliers to give them volume discounts. Think about that for a minute. Are these suppliers really “forced” to sell to Target or Best Buy? Should the government “do something” about these volume discounts? Who has more power in the U.S. to force manufacturers and retailers to do things a certain way, governments or big businesses?

Governments have the power to regulate businesses, set tax rates, and enforce rules, while large businesses can use their economies of scale, purchasing power, and marketing influence to dictate terms to suppliers. It is important to strike a balance between the interests of consumers and suppliers and maintain a competitive market without unfair advantages to large businesses. In the end the power is really in the hands of us, the consumer.

4. The percentage of sales in a certain industry by a particular company is said to be the portion that the company “controls.” Why is this illogical thinking?

Sales percentage does not equal control of the market as factors like competition, consumer behavior, government regulation, and more can cause fluctuations.

5. When do you think it would be appropriate for government to step in and regulate an industry or break up/control a monopoly?

The government should step in when businesses have too much power and are causing harm to consumers, other businesses, or the overall economy, if the people can't stop it first.