# Edexcel (B) Economics A-level

## Theme 4: Making Markets Work

## 4.2 Market Power and Market Failure

### 4.2.3 Arguments for and against regulation

Notes

## The benefits of regulation

- Increases consumer surplus, since goods and services are provided at lower prices
- Encourages firms to meet minimum quality targets, and results in products which are generally safe
- Helps to improve the quality of life for consumers and employees
- If regulation is harmonised, there can be fair rules for all businesses
- The flexibility of labour markets in the UK has resulted in lower levels of unemployment and more job creation

## The costs of regulation

- Regulation could increase the costs of firms and mean that it is more difficult to do business. For example, firms are likely to face higher costs if they have to comply with laws ensuring safer working environments for employees. It is also more expensive for firms to employ workers if they have to pay a minimum wage.
- If firms cannot collude, then their ability to increase their market power is limited. This could mean firms have to compete on price, which lowers their potential profits.