

# The Impact of Government Intervention on Market Efficiency

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*This essay follows the claim/evidence/evaluation structure that A Level examiners reward. Each body section opens with a claim, develops it through economic reasoning, and connects back to the central question. The conclusion reaches a conditional verdict rather than a blanket for-or-against position, which is what separates a Band 6 response from a Band 4.*

Free markets allocate resources efficiently under conditions of perfect competition, complete information, and no externalities. In practice, these conditions rarely hold. This essay argues that government intervention improves market efficiency when it targets specific, identified market failures, but reduces efficiency when it is applied broadly or without regard to unintended consequences.

## Correcting Market Failures

Market failures arise when the price mechanism fails to account for all costs or benefits associated with a transaction. Negative externalities such as industrial pollution lead firms to overproduce relative to the socially optimal level, because the costs of that pollution fall on third parties rather than on the firm itself. Government intervention through corrective taxes or regulation internalizes these external costs and shifts production toward the social optimum. Similarly, public goods are non-excludable and non-rival in consumption, which means private firms cannot charge for them efficiently. Government provision of national defense, street lighting, and public health infrastructure corrects this under-provision and improves overall welfare.

## Reducing Information Asymmetry

Information asymmetry occurs when one party to a transaction has more or better information than the other. In healthcare markets, insurers may be unable to distinguish high-risk from low-risk applicants, leading to adverse selection and potential market breakdown. In financial markets, information asymmetry can facilitate fraud and systemic risk. Government regulation that mandates disclosure, enforces accounting standards, and oversees financial institutions reduces asymmetry and allows prices to reflect more accurate information.

## Potential Drawbacks

Government intervention carries its own inefficiency risks. Price controls distort incentives: a price ceiling set below market equilibrium creates shortages, while a price floor set above it creates surpluses. Regulatory capture, where regulated industries come to influence the agencies overseeing them, can produce rules that protect incumbents rather than consumers. Subsidies

can sustain uncompetitive industries past the point where resources would be better deployed elsewhere. The risk is not that intervention is always wrong but that poorly designed intervention trades one form of market failure for another.

## **Conclusion**

Government intervention improves market efficiency when it is targeted at specific, well-identified failures and designed to avoid unintended distortions. The case for intervention rests on the existence of the failure, not on a general preference for regulation. Where markets function well, intervention reduces efficiency. Where they fail systemically, intervention is not only justified but necessary for welfare. The key variable is not the quantity of intervention but its design and the quality of the evidence base supporting it.

