Unit 3 - Government Intervention in the Price System / Market Forces / Invisible Hand

- Maximum Prices - set below the equilibrium - it benefits consumers
- Minimum Prices -set above the equilibrium - it benefits producers
- Indirect Taxes
- Subsidies - financial payment made to producers
- Nationalization and Privatization

Nationalization: is when the government / state takes over / buys private sector businesses.

Usually nationalization is a hostile takeover of private businesses by the government. It is usually dictators / monarchy type of governments that undergo nationalization.

Privatization: when a government owned business is sold to a private entity / business. Countries across the globe have started moving towards the free market which means that governments are reducing their involvement in economic activity.

- Pakistan Telecommunication Limited (PTCL)
- Pakistan International Airline (PIA)
- K-Electric

Possible Mechanism / Approaches to Privatization

a. ***One off Sale*** (auction / bidding process)
b. ***Convert the business into Public Limited Company*** - the business whose shares are traded on the stock exchange.
c. ***Deregulation:*** when government lets private sector businesses to operate in a certain market / industry
d. ***Outsourcing:*** when a business pays another company / firm to undertake some of its operations / tasks.

Pros of Nationalization	***Cons of Nationzalition***
- More equal income distribution by taking over private businesses, the government would be incharge of many resources and then it will employ people which would reduce the income gap.	- Government businesses are usually less efficient since the profit incentive is missing. With nationalization there are higher chances of wastage of resources since these organizations are not strictly about profit maximization.
- There are lesser chances of consumer exploitation because since government businesses are not strictly profit making entities therefore they will not charge consumers to maximum possible limits.	- Higher chances of ***nepotism*** and over-employment in government organization.
- Governments are less likely to produce demerit goods like cigarettes, weapons and so on.	- Government organizations are not demand driven or innovative because they are not profit maximizing entities so they are not on the outlook of ways to improve customer service or improve product quality and so on.

Pros of Privatization	***Cons of Privatization***
- Private businesses being profit maximizing entities will be constantly on the outlook of opportunities to improve their products, and increase efficiency.	- There are higher chances of private firms exploiting consumers especially in cases like monopoly.
- Being more efficient, these private firms can boost a company's exports and help in earning foreign exchange reserves.	- There could be major redundancies in case of economic recession.
- Private businesses hire candidates on the basis of merit and so these are lesser chances of corruption and nepotism.	- There could be overproduction of demerit goods like cigarettes and so on.

Redundancy is when a company lay-offs its workers due to demand for their goods/services.