Past-paper walk-through

Different market structures ▪ 7.6

eXercise

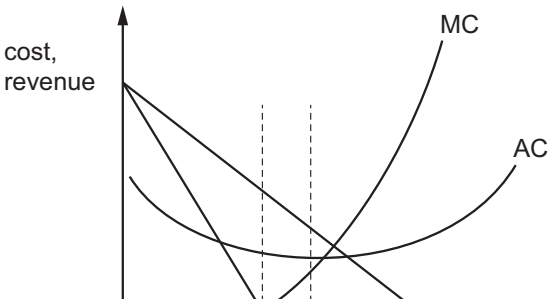
Questions in this set

- 9708/31 N25 Q3 ▪ 1 mark
- 9708/31 N25 Q5 ▪ 1 mark
- 9708/32 N25 Q4 ▪ 1 mark
- 9708/32 N25 Q7 ▪ 1 mark
- 9708/32 N25 Q8 ▪ 1 mark
- 9708/33 N25 Q2 ▪ 1 mark
- 9708/33 N25 Q5 ▪ 1 mark
- 9708/34 N25 Q1 ▪ 1 mark
- 9708/34 N25 Q8 ▪ 1 mark

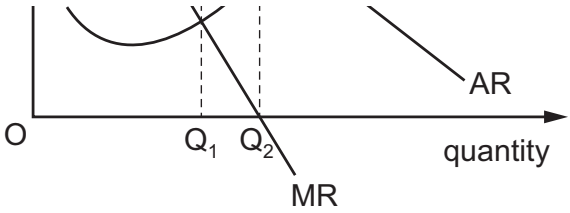
Question 3

9708/31 N25 ▪ Q3 ▪ 1 mark

3 The diagram shows that a producer increases output from Q_1 to Q_2.



Question 3



What will be the result?

Question 3

	total profit	total revenue
A	increased	increased
B	increased	reduced
C	reduced	increased
D	reduced	reduced

Solution 3

Answer: **C**

Why

- Total revenue rises whenever marginal revenue is positive.
- Total profit rises only while marginal revenue exceeds marginal cost.
- So read both MR and MC over the range: if MC is above MR, extra output *reduces* profit even as revenue grows.

Question 5

9708/31 N25 ▪ Q5 ▪ 1 mark

5 What is most likely to lead to a Pareto-optimal outcome?

A offering bulk-buy discounts to customers who join a loyalty scheme

B switching labour from producing low-priced products to producing high-priced products

C switching production from labour-intensive products to capital-intensive products

D training low-skilled workers to operate machinery effectively

Solution 5

Answer: **D**

Why

- A Pareto improvement makes at least one person better off without making anyone worse off.
- So look for a reallocation that removes a genuine inefficiency.
- Anything that gains for one group at another's expense is a redistribution, not a Pareto improvement.

Question 4

9708/32 N25 ▪ Q4 ▪ 1 mark

4 A firm has very high fixed costs but low marginal costs of production. It experiences continuous economies of scale so that the minimum efficient scale is not reached until the firm is very large in relation to total market demand.

In which type of market structure would the firm operate?

A monopolistic competition

B monopsony

C natural monopoly

D oligopoly

Solution 4

Answer: **C**

Why

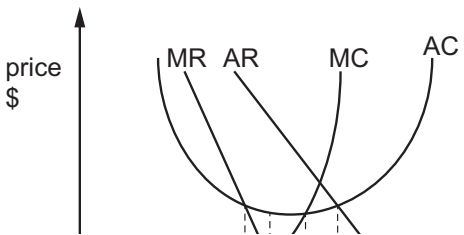
- Very high fixed costs with low marginal costs mean average cost keeps falling as output rises.
- One firm can therefore supply the whole market more cheaply than several could.
- That is a natural monopoly, which is why such industries are regulated rather than broken up.

Question 7

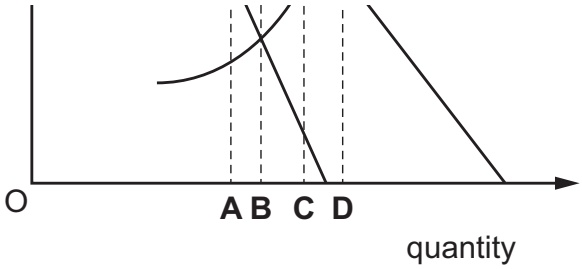
9708/32 N25 ▪ Q7 ▪ 1 mark

7 The diagram shows the cost and revenue curves for a monopolist.

Which level of output represents sales maximisation?



Question 7



Solution 7

Answer: **D**

Why

- Profit maximisation is where MC = MR; revenue maximisation is where MR $= 0$.
- Sales maximisation is the largest output at which the firm still covers its costs.
- So it is where AR = AC – normal profit only, and the highest output of the three.

Question 8

9708/32 N25 ▪ Q8 ▪ 1 mark

8 What might help achieve allocative efficiency?

A differentiated products

B government subsidies

C monopsony

Question 8

D supernormal profits

Solution 8

Answer: **B**

Why

- Allocative efficiency requires price to equal marginal cost.
- A subsidy can lower the price towards marginal social cost where there is a positive externality.
- Supernormal profit and product differentiation both indicate price *above* marginal cost.

Question 2

9708/33 N25 ▪ Q2 ▪ 1 mark

2 A firm has set a low price in the short run to act as a barrier to entry for new firms entering the market.

This is an example of which pricing strategy?

A limit pricing

B predatory pricing

C price discrimination

D price leadership

Solution 2

Answer: **A**

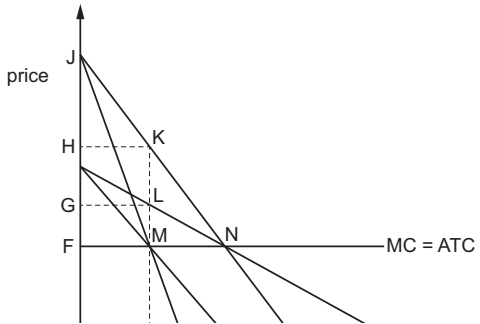
Why

- Limit pricing means setting a price low enough to deter entry, but still profitable.
- It works as a barrier to entry without breaking competition law outright.
- Predatory pricing would be pricing *below cost* to drive rivals out, which is different.

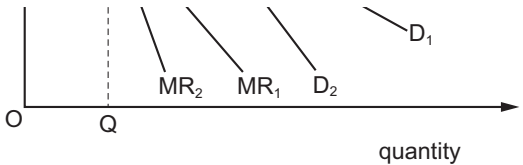
Question 5

9708/33 N25 ▪ Q5 ▪ 1 mark

5 The diagram shows the effect of a demand curve shift from D_1 to D_2 for a profit maximising firm.



Question 5



What has happened to the firm's total revenue and the deadweight welfare loss?

Question 5

	total revenue	deadweight welfare loss
A	decreases to OGLQ	decreases by KLN
B	decreases to OGLQ	increases by KLN
C	increases to OHKQ	decreases by KLN
D	increases to OHKQ	increases by KLN

Solution 5

Answer: **D**

Why

- Demand rising means the firm can sell more at every price, so both AR and MR shift right.
- The profit-maximising output is where MC = MR, so output rises.
- With MC = ATC constant, the higher price raises profit per unit as well as total profit.

Question 1

9708/34 N25 ▪ Q1 ▪ 1 mark

1 What will act as a barrier to collusion between firms?

A an ability to detect price cuts by rivals

B the abolition of anti-trust measures

C the existence of a small number of firms in the industry

D unstable demand conditions for products

Solution 1

Answer: **D**

Why

- Collusion is easier with few firms, similar costs and the ability to detect cheating.
- So anything that makes cheating hard to spot, or the group large, works against it.
- Abolishing anti-trust measures would *help* collusion, so it is not a barrier.

Question 8

9708/34 N25 ▪ Q8 ▪ 1 mark

8 What is a potential benefit of the privatisation of a country's railway services?

A higher levels of competition

B higher costs passed on in the form of higher prices

C opportunity for government regulation

D potential for a private monopoly

Solution 8

Answer: **A**

Why

- Privatisation transfers a service to private ownership, usually with competing operators.
- More competition should raise efficiency and give consumers more choice.
- Higher prices and reduced service on unprofitable routes are the *risks*, not the benefits.