A-LEVEL ECONOMICS • EXERCISE SHEET

7.6 Different market structures

Name: ____________ Class: ________ Date: __________ **Total: 26 marks**

KEY WORDS monopoly 垄断 • monopolistic competition 垄断竞争 • perfect competition 完全竞争 • price discrimination 价格歧视 • oligopoly 寡头垄断

Objective

Build the skills to answer exam questions on **market structures** 市场结构 — **perfect competition, monopolistic competition, oligopoly and monopoly** 完全竞争、垄断竞争、寡头垄断、垄断, plus **collusion** 合谋 and **price discrimination** 价格歧视.

You must be able to:

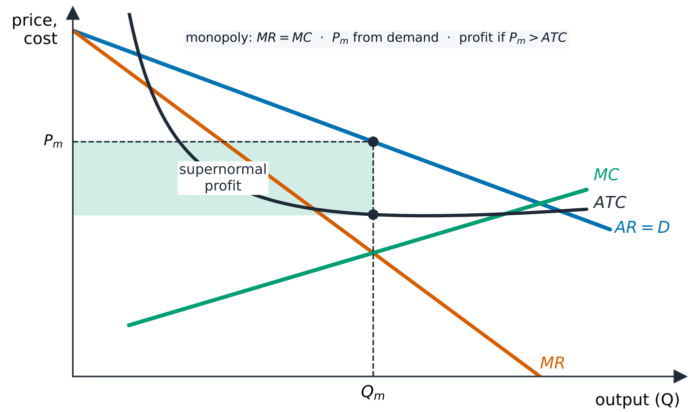
- compare the four market structures (firms, barriers, product, profit)
- draw perfect competition and monopoly in long-run equilibrium
- analyse and evaluate monopoly versus competition

1 Worked examples

■ The spectrum of competition

Firms, barriers to entry and product type define each structure

- **Perfect competition** 完全竞争: many firms, no barriers, identical product, **normal profit** only; efficient.
- **Monopolistic competition** 垄断竞争: many firms, differentiated product, normal profit long-run.
- **Oligopoly** 寡头垄断: a few firms, high barriers; may **collude** 合谋 (a **cartel** 卡特尔).
- **Monopoly** 垄断: one firm, high barriers, **supernormal profit** 超常利润, often inefficient.



One pole of the spectrum: the monopoly diagram (price above MC, supernormal profit)

- **Price discrimination** 价格歧视: charging different groups different prices.

Answer shapes: an **Explain [up to 8]** answer may use a firm diagram (AO3); **Discuss [12]** adds a judgement (AO4).

2 Practice

2.1 State two features of **perfect competition**. [2]

2.2 Define the term *price discrimination*. [2]

2.3 State why a monopoly can earn supernormal profit in the long run. [1]

3 Exam-style questions

3.1 In long-run equilibrium, a perfectly competitive firm earns: [1]

- **A** supernormal profit
- **B** normal profit only
- **C** subnormal profit
- **D** zero revenue

3.2 Using a diagram, explain how a monopoly can earn supernormal profit. [8]

3.3 Discuss whether a monopoly is always worse for society than perfect competition. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 any two of: very many firms; no barriers to entry; identical (homogeneous) product; firms are price takers; perfect information (1 + 1).

2.2 charging different consumers different prices for the same good (2 for a clear definition; 1 for a partial idea).

2.3 because high barriers to entry stop new firms competing the profit away (1).

3.1 B. Free entry competes profit down to normal in the long run.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (AR/MR, MC, ATC; output where MC = MR; price read off AR above ATC; supernormal profit shaded) + AO2/AO3 up to 3 — the monopoly produces where MC = MR, then charges the higher price buyers will pay → price exceeds average cost → the firm earns supernormal profit, protected by barriers to entry.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **Against monopoly:** higher prices, lower output, allocative and productive inefficiency, possible complacency. **For monopoly:** economies of scale can lower costs, supernormal profit can fund research (dynamic efficiency), and a natural monopoly avoids wasteful duplication. Judgement: monopoly is not *always* worse — it depends on whether economies of scale and innovation outweigh the higher price and inefficiency, and on regulation.