Solutions

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

Each answer shows the steps, then the **result**.

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