

4.1 HL market power and information: supported rehearsal

Name: _____ Class: _____ Date: _____

Total: 6 marks

Objective

Supported preparation: Analyse asymmetric information and market power; Use costs, revenue and welfare to evaluate intervention. This is original rehearsal, not completion of the assessed task.

1 Key knowledge and worked examples

Asymmetric information means one party knows relevant facts the other lacks. Market power can restrict output and increase price relative to competitive conditions, but comparison requires assumptions and cost evidence. Intervention may improve information or competition while creating administrative costs or unintended responses.

Original source / task evidence

Task: customers cannot judge repair quality before purchase; one local provider charges high prices. Compare an inspection disclosure rule with a price ceiling.

Separate what is stated from the interpretation.
HL market power and information

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Verified disclosure directly addresses information quality but needs trustworthy inspection. A binding ceiling may improve affordability for available services yet reduce supply or quality if below viable cost. Identify the demand/supply or cost/revenue diagram appropriate to the claim; label price, quantity and assumptions. Do not infer exploitation from price alone.

2 Practice

2.1 For the worked case, identify the evidence and a conclusion it can support. Explain one material limit. [3]

3 Exam-style questions

3.1 A high-price repair firm claims unusually high costs. What evidence would distinguish this from market power? Give a reasoned answer, evidence or method, and a relevant qualification. [3]

Solutions

2.1 Verified disclosure directly addresses information quality but needs trustworthy inspection. A binding ceiling may improve affordability for available services yet reduce supply or quality if below viable cost. Identify the demand/supply or cost/revenue diagram appropriate to the claim; label price, quantity and assumptions. Do not infer exploitation from price alone. Authored points for identifying relevant evidence, explaining a supported inference and a material limit.

3.1 Compare relevant costs, prices, profits, quality, entry barriers and customer alternatives over compatible periods. High price alone cannot separate high cost from restricted competition. Use the resulting model to choose information or competition intervention and consider its costs. Authored points for a relevant judgement, reason tied to the case and justified qualification or method. Accept a supported alternative.