

Information and market power

IB DP Economics HL syllabus 2.10-2.11 full package

1. Unit 2 failures of information and power

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IB Economics HL syllabus 2.10-2.11: asymmetric information and market power - the two remaining market failures of Unit 2, on the shared monopoly model.

Must-know: adverse selection before the contract, moral hazard after; $MR = MC$ at $Q = 40$, price 50, profit $(50-30) \times 40 = 800$; competitive benchmark (60, 40) with deadweight loss 200; natural monopoly regulated not fragmented; $CR4 = 90$ percent.

2. Asymmetric information

Asymmetric information

One party knows more than the other - the used-car seller, the borrower, the insured.

Adverse selection BEFORE the contract: the informed side self-selects badly, so a pooled insurance price keeps only high-risks and the low-risk market vanishes - the market for lemons where good products exit.

Moral hazard AFTER the contract: the protected side takes more risk - insured drivers, bailed banks. Responses: signalling (warranties, brands), screening (deductibles, credit checks), disclosure regulation, state provision of information.

3. Market power

Market power

Monopoly: one seller, unique product, high barriers - the price-maker. $MR = MC$ at $Q = 40$ with price 50 on the demand curve and profit 800; the competitive (60, 40) shows 20 fewer units at a 10 higher price, deadweight loss 200 plus an X-inefficiency risk - against the economies-of-scale and Schumpeter defences.

Natural monopoly: falling average costs over the whole market - regulate the price at MC or average cost, do not fragment. Oligopoly: interdependence, cartels, price wars; CR4 from shares 40/25/15/10 = 90 percent (missing foreign competition and contestability); competition law, regulation, deregulation.

Check yourself

Check yourself

Asymmetric information with both timing failures; the lemons exit; signalling and screening.

Monopoly assumptions, barriers, the model arithmetic with the welfare triangle; X-inefficiency against scale and Schumpeter.

Natural monopoly regulation; oligopoly and collusion; the concentration ratio and its limits; the policy set.