

Exercise walk-through

3.7

Types of markets

IGCSE Economics

Market structures

A **monopoly** has one supplier. Competitive markets have many rival suppliers; number alone does not determine price. More competition usually means lower prices & more choice.



Competition shapes price and choice

Exam tips

- Money's four functions: a **medium of exchange**, a **store of value**, a **unit of account**, and a **means of deferred payment**.
- Key formulas: $\text{profit} = \text{total revenue} - \text{total cost}$; $\text{total revenue} = \text{price} \times \text{quantity}$; $\text{average cost} = \text{total cost} \div \text{number of units}$.
- **Fixed costs** do not change with output (rent, insurance); **variable costs** do (materials, power). $\text{Total cost} = \text{fixed} + \text{variable}$.
- **Economies of scale** make average cost *fall* as a firm grows; management problems may bring diseconomies of scale (average cost rises).
- Know the merger types: **horizontal** (same stage of the same industry), **vertical** (different stages of one industry), **conglomerate** (different industries).

Topic 3 – key takeaways

1

Money

exchange, store, account, deferred payment

2

Households

spend, save or borrow; rates & confidence

3

Firms

integration; economies of scale
lower cost

4

Markets

competition and monopoly:
evaluate conditions

Exercises 2.1·2.3

2.1 Define the term *monopoly*.

[2]

2.2 Define the term *barriers to entry*.

[2]

2.3 State one benefit to consumers of a competitive market.

[1]

Exercises 2.1-2.3

2.1 Define the term *monopoly*. [2]

2.1

- a **monopoly** is a market with **only one firm**, or one firm that controls most of it (K)

2.2 Define the term *barriers to entry*. [2]

2.2

- **barriers to entry** are things that make it hard for new firms to enter a market, such as high start-up costs (K)

2.3 State one benefit to consumers of a competitive market. [1]

2.3

- any **one** of: **lower prices** / **wider choice** / **better quality** (K)

Exercises 3.1-3.2

3.1 In a competitive market, firms are most likely to:

[1]

☐

A charge high prices and ignore quality

B keep prices low and quality high

C make very high profits easily

D face no pressure to cut costs

3.2 Explain two reasons why a monopoly can charge high prices.

[4]

Exercises 3.1-3.2

3.1 In a competitive market, firms are most likely to:

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3.1 B

- in competition, firms keep **prices low** and **quality high** to win customers (K)
- A, C and D describe a monopoly, not competition

3.2 Explain two reasons why a monopoly can charge high prices.

[4]

3.2

- for **each** of two reasons: K + An
- e.g. **no competition**: buyers have no other firm to go to → they must pay the monopoly's price
- e.g. **barriers to entry**: new firms cannot enter to undercut it → the monopoly can keep its price high

Exercise 3.3

3.3 Discuss whether a monopoly is always worse for consumers than a competitive market. [8]

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3.3

- **worse:** a monopoly can charge high prices, offer less choice, and has little pressure to improve quality (K + An)
- **not always:** a large monopoly may gain **economies of scale** and use profit to fund research (An)
- **judgement (Ev):** a monopoly is usually worse, but it can benefit consumers if lower costs are passed on and it innovates