Exercise walk-through

Types of markets ▪ 3.7

eXercise

You must be able to

- describe a competitive market and a monopoly
- explain **barriers to entry 进入壁垒**
- compare competition and monopoly for consumers and firms

Method — Competition versus monopoly

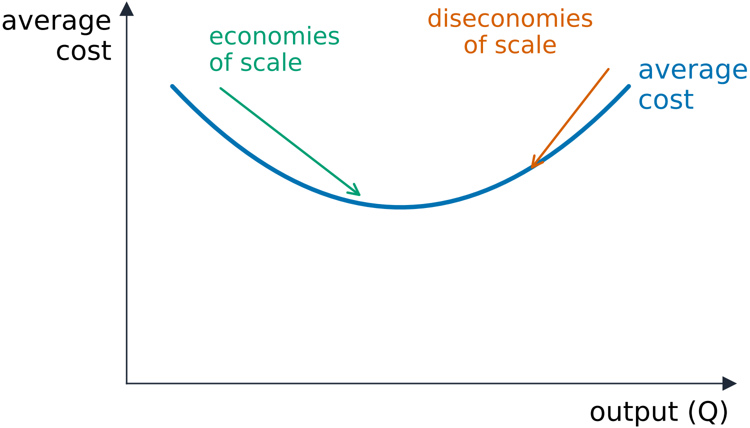
- **Competitive market:** many firms, easy entry → low prices, high quality, wide choice (good for consumers; lower profit for firms).
- **Monopoly 垄断**: one firm, **barriers to entry 进入壁垒** (high start-up costs) → high prices, less choice, little pressure to improve.
- **But** a monopoly may gain economies of scale and fund research.

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

Method — Competition versus monopoly

In a competitive market many firms sell similar goods

Method — Competition versus monopoly



Average cost falls (economies of scale) then rises (diseconomies)

Practice 2.1 ▪ 2 marks

Define the term *monopoly*.

Solution 2.1

Worked steps

a market with only one firm, or one firm that controls most of it (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

Define the term *barriers to entry*.

Solution 2.2

Method: Competition versus monopoly

Worked steps

things that make it hard for new firms to enter a market, such as high start-up costs (2 for a clear definition; 1 for a partial idea).

Practice 2.3 ▪ 1 mark

State one benefit to consumers of a competitive market.

Solution 2.3

Method: Competition versus monopoly

Worked steps

any one of: lower prices; wider choice; better quality (1).

Exam-style 3.1 ▪ 1 mark

In a competitive market, firms are most likely to:

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

Solution 3.1

Method: Competition versus monopoly

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

Worked steps

B. In competition, firms keep prices low and quality high to win customers.

Exam-style 3.2 ▪ 4 marks

Explain two reasons why a monopoly can charge high prices.

Solution 3.2

Method: Competition versus monopoly

Worked steps

[4] For **each** of two reasons: K 1 + An 1 — *no competition*: buyers have no other firm to go to → they must pay the monopoly's price; *barriers to entry*: new firms cannot enter to undercut it → the monopoly can keep its price high.

Exam-style 3.3 ▪ 8 marks

Discuss whether a monopoly is always worse for consumers than a competitive market.

Solution 3.3

Method: Competition versus monopoly

Worked steps

[8] K/App/An up to 5 + Ev up to 3. **Worse for consumers:** a monopoly can charge high prices, offer less choice, and has little pressure to improve quality. **Not always:** a large monopoly may gain economies of scale (lower costs, which could mean lower prices) and use its profit to fund research and new products. **Judgement (Ev):** a monopoly is usually worse because of high prices and weak choice, but it can benefit consumers if economies of scale are passed on and it innovates — so it depends on the firm and whether the government regulates it.