3.7 Types of markets

Name: ______________ Class: _________ Date: ____________ **Total: 17 marks**

Objective

Build the skills to answer exam questions on **types of markets** 市场类型—**competitive markets** 竞争市场 and **monopoly** 垄断, and how each affects consumers and firms.

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

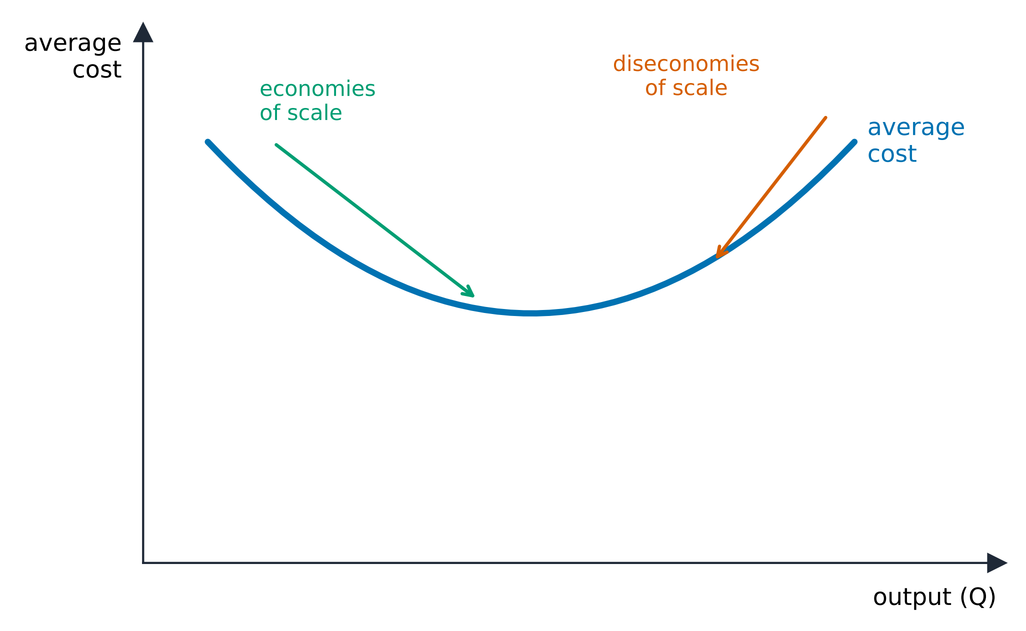
1 Worked examples

■ Competition versus monopoly

Markets differ by the number of firms and how easy it is to enter

Image: source

- **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.



A large firm's cost advantage from economies of scale is a barrier to entry that shapes the market

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

2 Practice

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]

3 Exam-style questions

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]

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

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **3.7 Types of markets** past-paper sheet in the Library, or try these in **Practice mode**:

- 0455/11 N25 —Q27 (market types)
- 0455/12 N25 —Q16 (monopoly)
- 0455/13 N25 —Q16 (competition)

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

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

2.2 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).

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

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

3.2 *[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.

3.3 *[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.