Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

Each answer shows the steps, then the **result**.

2.1

any two: **many** sellers; **similar** products; **easy entry** for new stalls; each seller has little control over **price**

2.2

- a patent gives the inventor the **legal** right to be the only seller for a number of years (K)
- so rivals cannot make the product, and the firm keeps its monopoly (An)

2.3

- $300 \times 62 \div 100$
- = \$**186 million**

3.1

C

3.2

(a)

- $(460 - 400) \div 400 \times 100$
- = **15** %

(b) two barriers, each explained (K + App each):

- very high **start-up costs**: a rival would need its own network of pipes
- the company's **economies of scale**: it can supply each home at a lower cost than a newcomer
- **legal** barriers: a licence may be needed to supply water

(c) a developed chain, for example:

- a monopoly has **no close rivals**, so customers cannot switch (K)
- water is a necessity with **inelastic** demand (App)
- if the firm raises price, quantity demanded falls little, so revenue and profit rise (An)
- barriers to entry stop new firms being attracted by the high profit (An)
- in a competitive market, a firm that raised its price would lose customers to rivals, so prices stay near cost (An)

(d) bad: (An)

- higher prices, as in the 15 % rise; less choice and less pressure to improve service

not always: (An)

- one network avoids wasteful duplication of pipes (**natural monopoly**); economies of scale lower costs
- profit can fund **investment**, such as new pipes; governments can regulate prices

judgement: (Ev) for example, monopolies are harmful when unregulated, but in water supply one firm is efficient; the best outcome is a monopoly with price controls and targets for investment.

Level 3 (6–8): both sides analysed and a justified judgement. Level 2 (3–5): one side analysed or both explained. Level 1 (1–2): simple points.