Topic: Competition and Monopoly

Q1

Fill in the gaps using some of the words and numbers below:

A …………………… monopolist is a single ………………………….. It is rare for a firm to have a pure monopoly – except when the industry is state-owned and has a legally protected monopoly.

A working monopoly is any firm with greater than …………% of total …………………..

An ……………………………. is characterized by the existence of a few …………………… firms, each has market power and which seeks to protect and improves its position over time.

In a duopoly, ……………. firms take the majority of demand

dominant **oligopoly** **sales** **seller** **pure** **2** **25** **50**

Q2

The following are characteristics of either competitive or monopoly markets. Fill in the right-hand box after deciding which

Characteristic	**Competitive or monopoly market?**
A dominant firm is a firm 'controls' at least 40% of their given market	
Many small firms	
Sellers produce slightly differentiated products giving consumers plenty of choice	
One firm often has price setting power	
Consumer loyalty to established businesses is fairly weak	
An allocatively inefficient outcome is likely	
Consumers and sellers have full information about prices so that it easy for buyers to find the seller offering the best value for money	
The barriers to entering the market are high, preventing new firms to come into the market in pursuit of profit	

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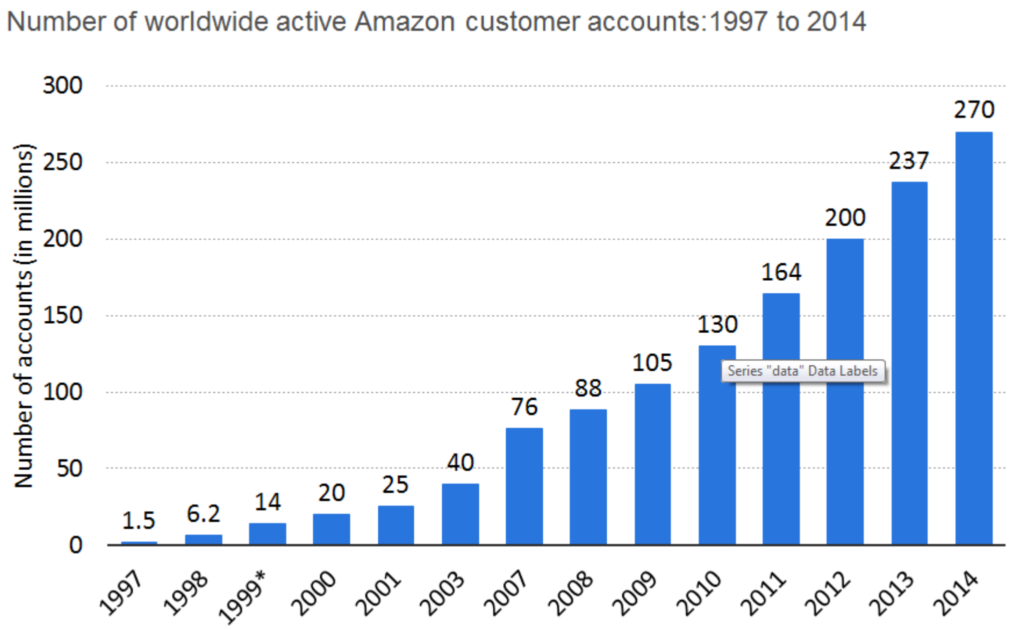
Q3



Outline one significant feature of the data above

Calculate the average yearly increase in user accounts over the period 1997 to 2014.

From your knowledge, state two characteristics of a monopoly which you think are applicable to Amazon

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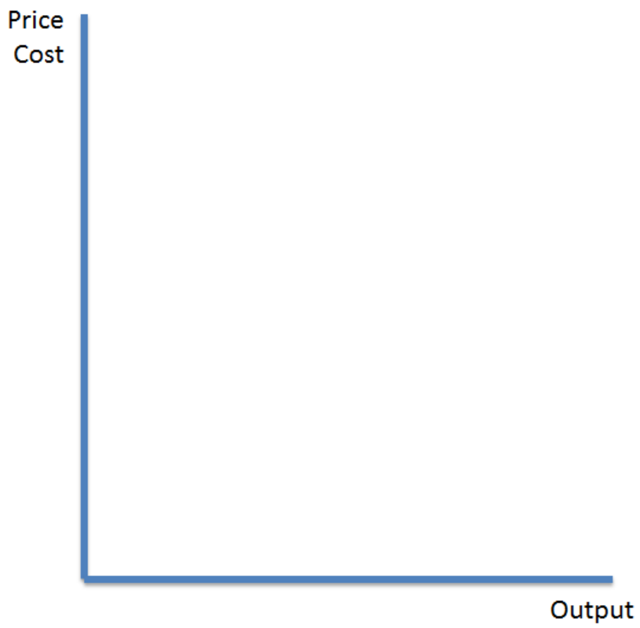
Q4

Draw a diagram to show price and output under monopoly and competitive market conditions



Q5

State and explain two barriers to entry which protect monopoly power in a market (and use an example from the real world)

Topic: Competition and Monopoly

Q1

A **pure** monopolist is a single **seller**. It is rare for a firm to have a pure monopoly – except when the industry is state-owned and has a legally protected monopoly.

A working monopoly is any firm with greater than **25** of total **sales**.

An **oligopoly** is characterized by the existence of a few **dominant** firms, each has market power and which seeks to protect and improves its position over time.

In a duopoly, **2** firms take the majority of demand.

Q2

Characteristic	Competitive or monopoly market
A dominant firm is a firm 'controls' at least 40% of their given market	**Monopoly**
Many small firms	**Competitive**
Sellers produce slightly differentiated products giving consumers plenty of choice	**Competitive**
One firm often has price setting power	**Monopoly**
Consumer loyalty to established businesses is fairly weak	**Competitive**
An allocatively inefficient outcome is likely	**Monopoly**
Consumers and sellers have full information about prices so that it easy for buyers to find the seller offering the best value for money	**Competitive**
The barriers to entering the market are high, preventing new firms to come into the market in pursuit of profit	**Monopoly**

Q3

Active Amazon accounts increased every year from 1.5m in 1997 to 270m in 2014

268.5/13 = 20.65m user accounts per year

Amazon is a dominant firm ie it has at least 40% in many of the markets in which it operates **and** price setting power

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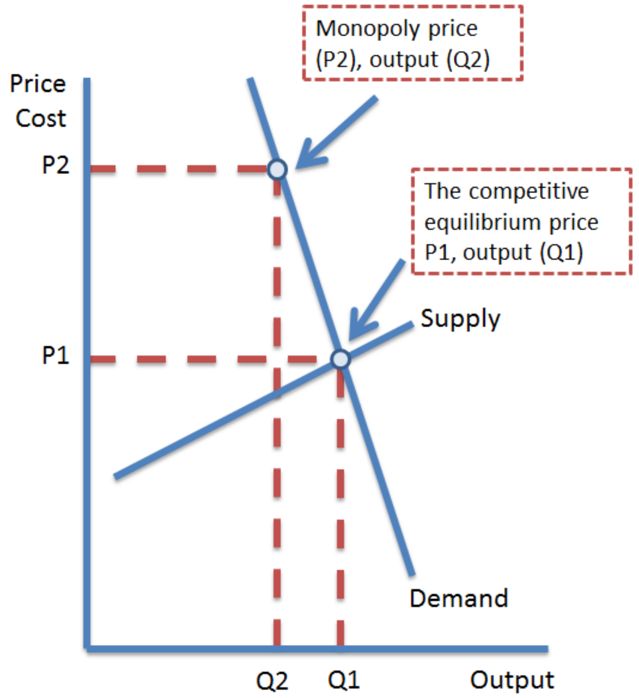
Q4



Q5

Brand Loyalty – firms such as Coca Cola have established significant market power due to creating and maintaining brand loyalty. This prevents new firms establishing a 'foothold' in the market

Economies of Scale – Coca Cola is able to produce output on a huge scale and as such can benefit from economies of scale which drive down average cost to a level which a new entrant cannot achieve. As such, the new entrant cannot compete as it cannot make a profit and hence doesn't enter or leaves the market maintaining Coca Cola's long term market power.