Quick Answers

Question 1

Identify two characteristics of a competitive market

- many buyers
- many sellers
- no barriers to entry (and exit)
- (firms are) price takers
- Identical / homogeneous product
- no attachment between buyers and sellers
- perfect knowledge

Question 2

Discuss whether or not competition is beneficial for airlines.

Up to 4 marks why it is beneficial:

- Competition will lead to airline being forced to be more efficient (1) productivity increase (1) use latest technology (1) reduce wasteful spending (1) quality increases (1) cost of production goes down (1) prices become more affordable (1) increase in quantity demanded (1) total revenue and profit increases (1).

Up to 4 marks why it is not beneficial:

- Too much competition means less market share for each airline (1) less quantity demanded (1) airlines may have to
advertise more (1) increase cost of production (1) total revenue and profit decreases (1) airlines who can't compete may go bankrupt / leave the market (1)
- Too much competition may result in the airline being small (1) cannot take advantage of economies of scale (1)
- An airline may not benefit from becoming more competitive (1) because of brand loyalty (1) lower demand for air travel (1)

Question 3

Discuss whether or not a government should allow monopolies.

Level 3 (6-8 Marks)

A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.

Why it should:

- monopolies may be able to take advantage of economies of scale
- may be able to experience lower average costs and charge lower prices
- may earn high profits and so be able to spend on investment and research and development
- may be able to produce high quality products
- may be internationally competitive
- maybe nationalised monopolies with welfare objectives

Why it should not:

- maybe market failure/abuse market power
- may charge high prices
- may restrict output
- may become complacent
- may not improve quality

Example of Level 3 answer:

Yes, the government should allow monopolies. It will prevent duplication of goods due to unique products with no close substitutes produced. This can reduce the wastage of resources. Monopolies can also benefit from economies of scale as they produce in large quantities so they can benefit from cost saving by negotiating favourable prices as a result of bulk buying. This can translate into lower prices for consumers, increasing their ability to consume more goods and services, boosting economic growth and their standard of living.

Since it is possible for monopolies to earn supernormal profits, they are more able to spend more on research and development of their products, improving quality for consumers.

No, they should not allow monopolies. Due to them being a single seller, this allows them to exploit consumers by charging higher prices as there is imperfect information and they are the only firm in the market, consumers have no choice but to buy the unreasonably priced products which means consumers spend too much in the long run and may even cause inflation to rise too. Monopolies may also increase income inequality as the producer gains at the expense of their consumers, especially those on lower incomes, causing poverty for those on low incomes especially if these products are essential goods and services such as food and utilities.

Principal Examiner comment:

This is a well thought out response with strong arguments on both sides and several aspects analysed.

Question 4

Discuss whether or not an economy benefits from firms which are monopolies.

Up to 5 marks for how it might:

- Monopolies can gain more profits (1) they will be able to reinvest more (1) more choices from the company (1) total demand increases (1) economic growth (1) expand production (1) employ more workers (1) unemployment decreases (1) more R&D (1) more innovation (1) higher quality (1) more productivity (1) more exports (1) improved current account position (1)

Up to 5 marks for how it might not:

- Lack of competition (1) complacency (1) less productivity (1) less innovation (1) price is higher (1) inflation (1) exploitation of consumers (1) less choice (1) lower quality (1)

Question 5

Discuss whether or not a monopoly will charge high prices.

Up to 3 marks for why it might:

- A monopoly is a single seller (1) has high market power (1) is a price maker (1) demand for its product may be inelastic (1) due to lack of substitutes (1) can raise revenue by raising price (1) may be seeking to maximise profit (1)
- A monopoly may be inefficient (1) due to lack of competition (1) resulting in higher costs and prices (1)

Up to 3 marks for why it might not:

- A monopoly may have low average cost of production (1) due to economies of scale (1) example (1)
- A monopoly may not be a profit maximiser (1) example of another objective (1)
- A monopoly may have a product with elastic demand (1) e.g. may be producing a luxury (1)
- A monopoly may be concerned that charging high prices will encourage new firms to enter the market (1) reducing its market power (1)
- A monopoly may fear government intervention (1) and keep prices low (1)
- A monopoly may be government controlled (1) and charge low prices (1)

Guidance

- Reward but do not expect reference to price discrimination resulting in low prices for some consumers.

Question 6

Explain two ways monopoly differs from a competitive market

- one supplier in monopoly (1) many suppliers in a competitive market (1)
- a monopoly has 100% share of the market (1) one perfectly competitive firm will have a small share of the market (1)

- barriers to entry and exit in monopoly (1) free entry and exit in perfect competition (1)
- a monopoly is a price maker (1) while a competitive firm is a price taker (1)
- a monopolist may advertise (1) no advertising in perfect competition (1)
- there may be brand loyalty in monopoly (1) but no attachment between buyers and sellers in a competitive market (1)
- there are no substitutes in a monopoly (1) there are perfect substitutes in a competitive market (1)

Question 7

Analyse how perfect competition differs from a monopoly.

- In competitive markets there are many sellers (1) in monopoly there is only one (1)
- In competitive markets there are no barriers to entry and exit / free entry and exit (1) in monopoly there are barriers (1)
- Firms in competitive markets are price takers (1) a monopoly is a price maker (1)
- In competitive markets there is perfect knowledge (1) that other firms may not be aware of e.g. the profit being earned by a monopoly (1)
- In competitive markets there is a low degree of market concentration (1) in monopoly it is 100% (1)
- In competitive markets there are perfect substitutes / homogenous products / identical products (1) in monopoly there are no substitutes / a unique product (1).

Question 8

Explain, using information from the extract, TWO reasons why the banking market in Morocco is NOT an example of a competitive market.

- Three banks control more than two-thirds of the market (1) implies high % of market/dominance/not large number of small firms/ price maker (1)

- The banks use brand names (1) there is no advertising/no brand loyalty in perfect competition (1)
- Set own interest rates (1) in competitive markets, firms are price takers/prices determined by the market (1)
- Provide different services (1) the product is homogeneous in competitive markets (1)

Question 9

Explain two advantages a firm may gain from being a monopoly

- May be able to charge high prices / price maker (1) due to lack of competition (1) enabling it to earn a high profit (1)
- May produce at lower costs (1) due to economies of scale / charge lower prices (1)
- May produce high quality products (1) as high profits enable it to invest and innovate (1)
- May be able to compete with foreign firms (1) gain a wider market / export more (1)
- May have stronger bargaining power with suppliers (1) keeping costs low (1)

Question 10

Discuss whether or not removing a firm's monopoly power will benefit consumers.

Up to 5 marks for why it might:

- More choice for consumers (1) improved competition (1) will causes prices to fall (1) which will increase consumers' real disposable income (1)
- The monopoly may be experiencing diseconomies of scale (1) with high (average) costs of production (1)
- Quality is likely to improve (1) as firms will innovate in order to win customers (1)

- Competition will force firms to be more efficient in order to survive (1). They will look to reduce costs in order to remain competitive (1) and will invest in research and development to maintain market share (1).

Up to 5 marks for why it might not:

- A monopoly firm can take advantage of economies of scale (1) reducing (average) costs of production (1) example (1) the removal of monopoly power may increase prices for consumers, reducing their welfare (1)

- Consumers may rely upon the reputation of a monopoly (1) for quality / customer service (1) too much choice can lead to confusion / inconvenience for consumers (1)

- The firm may be state owned (1) may take into account the full social costs and benefits (1) may have charged low prices (1) to make products affordable (1)