3.4 Market Structures

Efficiency

i. What is allocative efficiency?
ii. What does allocative efficiency maximise?
iii. When is allocative efficiency achieved? Give the two 'versions' of the condition
iv. Show allocative efficiency on a D-S diagram
v. Show allocative efficiency on a AC-MC-AR-MR diagram
vi. Is allocative efficiency a static concept?
vii. What is productive efficiency?
viii. When is productive efficiency achieved?
ix. Show productive efficiency on a PPF diagram
x. Show productive efficiency on a AC-MC-AR-MR diagram
xi. Why might productive efficiency differ in the short and long run?
xii. Is productive efficiency a static concept?
xiii. What is dynamic efficiency?
xiv. What is innovation?
xv. Explain the two types of innovation, referring to allocative and productive efficiency?
xvi. What is the condition for dynamic efficiency?
xvii. Is dynamic efficiency a static concept?
xviii. What is X-inefficiency?
xix. Show X-inefficiency on an AC diagram
xx. What market structure is most likely to display X-inefficiency?
xxi. How can Government X-inefficiency be overcome?

Market Structure

i. What are the 6 characteristics by which we can describe market structures?
ii. What is a Barriers to Entry/Exit?
iii. State 8 types of barrier to entry/exit
iv. Which 4 are innocent barriers to entry/exit?
v. Which 3 are deliberate barriers to entry/exit?
vi. What is interdependence?
vii. What is homogeneity?
viii. How is concentration ratio calculated?
ix. Give 3 criticisms of concentration ratio as a way of identifying market structure

Perfect Competition

i. What are the characteristics of perfect competition?
ii. Draw an industry demand curve for perfect competition
iii. Draw a firm demand curve for perfect competition
iv. Why does D=AR=MR in perfect competition?
v. Why is a perfectly competitive firm's demand curve perfectly elastic?

vi. Illustrate a perfectly competitive firm making normal profit
vii. Illustrate a perfectly competitive firm making a short run loss
viii. Illustrate a perfectly competitive firm making a short run abnormal profit
ix. Explain, using industry and firm graphs, why perfectly competitive firms cannot sustain supernormal profit in the short run
x. Does perfect competition result in allocative efficiency?
xi. Does perfect competition result in productive efficiency?
xii. Does perfect competition result in dynamic efficiency?
xiii. Does perfect competition result in X-efficiency?
xiv. What are the advantages of perfect competition?
xv. What are the disadvantages of perfect competition?
xvi. Give examples of 2 industries which could be considered close to perfectly competitive

Monopolistic Competition

i. What are the characteristics of monopolistic competition?
ii. Draw an industry demand curve for perfect competition
iii. Why does MR<AR at all quantities?
iv. To what extent do monopolistically competitive firms have control over the price?
v. Why is a monopolistically competitive firm's AR curve downward sloping?
vi. Illustrate a monopolistically competitive firm making normal profit
vii. Illustrate a monopolistically competitive firm making a short run loss
viii. Illustrate a monopolistically competitive firm making a short run abnormal profit
ix. Why are monopolistically competitive firms unlikely to maintain supernormal profit in the short run
x. Explain why a firm may operate at excess capacity in the short run
xi. Does monopolistic competition result in allocative efficiency?
xii. Does monopolistic competition result in productive efficiency?
xiii. Does monopolistic competition result in dynamic efficiency?
xiv. Does monopolistic competition result in X-efficiency?
xv. What are the advantages of monopolistic competition?
xvi. What are the disadvantages of monopolistic competition?
xvii. Give examples of 2 industries which could be considered close to monopolistically competitive

Oligopoly

i. What are the characteristics of oligopoly?
ii. How can an oligopoly be identified?
iii. Explain why oligopolies are often formed through mergers
iv. Why is it often difficult for oligopolies to determine production price and quantities?
v. What is collusion?
vi. What is the difference between tacit and overt collusion?
vii. Why might firms want to engage in tacit collusion?
viii. Why might firms want to engage in overt collusion?
ix. What is price leadership?
x. What is a cartel?
xi. Why do cartels often fail?
xii. Under what circumstances would a firm be best placed to cheat a cartel?
xiii. Draw a sample two firm, two outcome model to show possible outcomes when firms decide whether to a) raise price or lower price b) compete or collude?
xiv. Explain 3 forms of price competition
xv. Why might firms want to engage in non-price competition?
xvi. Explain 4 forms of non-price competition?
xvii. Does oligopoly result in allocative efficiency?
xviii. Does oligopoly result in productive efficiency?
xix. Does oligopoly result in dynamic efficiency?
xx. Does oligopoly result in X-efficiency?
xxi. What are the advantages of oligopoly?
xxii. What are the disadvantages of oligopoly?
xxiii. Give examples of 2 industries which could be considered close to oligopoly

Monopoly

i. What are the characteristics of a monopoly?
ii. Why is the demand curve for a monopolist downward sloping?
iii. Why does AR≠MR for a monopolist?
iv. What is the relationship between AR and MR for a monopolist?
v. Illustrate a monopolist making normal profit
vi. Illustrate a monopolist making a short run loss
vii. Illustrate a monopolist making a short run abnormal profit
viii. Why can a monopolist maintain a supernormal profit in the short run?
ix. What is Third Degree Price Discrimination?
x. Why would a monopolist want to use price discrimination?
xi. Illustrate Third Degree Price Discrimination using diagrams
xii. What are the 3 conditions necessary for price discrimination to be possible?
xiii. Why is 3rd degree price discrimination associated with monopoly?

xiv. What is a Natural Monopoly?
xv. Does monopoly result in allocative efficiency?
xvi. Does monopoly result in productive efficiency?
xvii. Does monopoly result in dynamic efficiency?
xviii. Does monopoly result in X-efficiency?
xix. What are the advantages of monopoly to consumers?
xx. What are the disadvantages of consumers?
xxi. What are the advantages of monopoly to firms?
xxii. What are the disadvantages of firms?
xxiii. What are the advantages of monopoly to employees?
xxiv. What are the disadvantages of employees?
xxv. What are the advantages of monopoly to suppliers?
xxvi. What are the disadvantages of supplier?
xxvii. Give examples of 2 industries which could be considered close to monopoly

<u>Monopsony</u>

i. What is a monopsony?
ii. Give an example of a monopsony
iii. How do monopsonists typically profit maximise?
iv. Compare the price paid to suppliers under monopsony to that under competition
v. Compare the quantity bought from suppliers under monopsony to that under competition
vi. Give a benefit of monopsony to the firm itself
vii. Give a cost of monopsony to the firm itself
viii. Give a benefit of monopsony to the consumers
ix. Give a cost of monopsony to the consumers
x. Give a benefit of monopsony to employees
xi. Give a cost of monopsony to employees
xii. Give a benefit of monopsony to suppliers
xiii. Give a cost of monopsony to suppliers

<u>Contestable markets</u>

i. What is a contestable market?
ii. What is the difference between contestable markets and perfectly competitive markets?
iii. Why do firms in a contestable market avoid setting P>AC?
iv. What is limit pricing?
v. What are sunk costs?
vi. Give 2 examples of sunk costs