1.1 Perfect competition, imperfectly competitive markets and monopoly: 10-minute Pack

AQA 7136 · Calculator allowed · about 10 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions. Show all your working.

1 A grocery market has thousands of independent small shops each selling similar but not identical products, with low barriers to entry.

(a) Identify which market structure this scenario most closely resembles, giving one reason. **(2)**

(b) Discuss one way this market structure might benefit consumers compared with a monopoly serving the same area. **(4)**

(Total for Question 1 is 6 marks)

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Mark scheme · 1.1 Perfect competition, imperfectly competitive markets and monopoly: 10-minute Pack

Question 1

(a) monopolistic competition **B1**

(a) because there are many sellers, products are differentiated (similar but not identical) rather than homogeneous, and entry barriers are low **B1**

(a) Answer: Monopolistic competition: many sellers, differentiated products, low entry barriers.

(b) with many competing sellers and low barriers to entry, no single firm can sustain significant supernormal profit or restrict output/raise price far above cost in the long run, unlike an unregulated monopoly **M1**

(b) this keeps prices closer to average cost and output higher than a monopolist (which restricts output at MC=MR) would choose, benefiting consumers through lower prices and/or more choice **A1**

(b) product differentiation also gives consumers a wider variety of similar goods to choose between, better matching diverse consumer preferences than a single monopoly product could **M1**

(b) (evaluative point) however, the smaller scale of each individual firm compared with a monopoly means consumers may not benefit from the same economies of scale/lower unit costs that a very large monopolist with significant market power might achieve **A1**

(b) Answer: Competitive pressure keeps price closer to cost and gives more variety, though it may sacrifice the scale economies a monopolist could offer.

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