1.16 Monopolistic Competition and Oligopoly: Non-Price Competition and Game Theory: 10-minute Pack

AQA 7136 · Calculators not allowed · about 10 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Show working for calculations. A calculator is not required.

1 Calculate the four-firm concentration ratio for a hypothetical UK cosmetics market where the top four firms have market shares of 22%, 18%, 14% and 10%. Explain briefly what this concentration ratio suggests about the market structure.

(Total for Question 1 is 3 marks)

2 State one pro-consumer effect and one anti-consumer effect of collusion among firms in an oligopoly, with brief explanation.

(Total for Question 2 is 3 marks)

3 State two features of monopolistic competition that explain why firms make normal profit in the long run, referring to the entry and exit behavior of firms.

(Total for Question 3 is 2 marks)

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Mark scheme · 1.16 Monopolistic Competition and Oligopoly: Non-Price Competition and Game Theory: 10-minute Pack

Question 1

adds the four shares: 22 + 18 + 14 + 10	**M1**
= 64%	**A1**
interprets 64% as indicating a concentrated market consistent with oligopoly, where a few firms hold most market share	**B1**

Answer: Four-firm concentration ratio = 64%; suggests a concentrated market consistent with oligopoly.

Question 2

pro-consumer effect: collusion can stabilise prices and ensure predictable supply which may benefit consumers if it prevents destructive price wars that reduce service quality	**B1**
anti-consumer effect: collusion tends to raise prices above competitive levels, reducing consumer surplus and welfare	**B1**
brief explanation of each effect linking to consumer outcomes	**B1**

Answer: Pro: price stability and steady supply may benefit consumers; Anti: higher prices and reduced consumer surplus are harmful.

Question 3

freedom of entry and exit allows new firms to enter when existing firms earn supernormal profit	**B1**
entry increases competition and reduces demand for each existing firm until only normal profit remains	**B1**

Answer: Freedom of entry and exit; entry when supernormal profits exist increases competition until firms earn only normal profit.

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