1.17 Price Discrimination and the Theory of Contestable Markets: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Fully explain any diagrams you are asked to draw. Spend about 10 minutes in total.

1 Define the 'limit pricing' strategy in the context of contestable markets, and explain one strength and one weakness of limit pricing as a deterrent to entry in a UK market such as regional transport.

(Total for Question 1 is 4 marks)

2 Define the term 'price discrimination' in the context of markets such as rail fares or cinema tickets, naming the setting in your definition.

(Total for Question 2 is 2 marks)

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Mark scheme · 1.17 Price Discrimination and the Theory of Contestable Markets: 10-minute Pack

Question 1

defines limit pricing: incumbent sets price low enough to make entry unprofitable for potential entrants	**B1**
states strength: it can deter entry without permanent reduction of output, maintaining incumbent's market position	**M1**
develops strength with example: in regional transport, below-peak fares or capacity discounts may remove short-run profit opportunity for entrants	**A1**
states weakness: legal or regulatory scrutiny and commitment problems, and if entrants have lower costs or access to finance, limit pricing may not deter them	**B1**

Answer: Limit pricing is setting price low to make entry unprofitable. Strength: can deter entry and protect incumbent profits in the long run. Weakness: may be unsustainable or illegal, and entrants with low costs may still enter.

Question 2

a firm charging different prices to different consumers or groups for the same product or service	**B1**
the price differences are not explained by differences in production cost	**B1**

Answer: Charging different prices to different consumers or groups for the same good or service in a market such as rail or cinema, where the price differences are not due to differences in the cost of supply.

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