Exercise walk-through

Different market structures ▪ 7.6

eXercise

You must be able to

- compare the four market structures (firms, barriers, product, profit)
- draw perfect competition and monopoly in long-run equilibrium
- analyse and evaluate monopoly versus competition

Method — The spectrum of competition

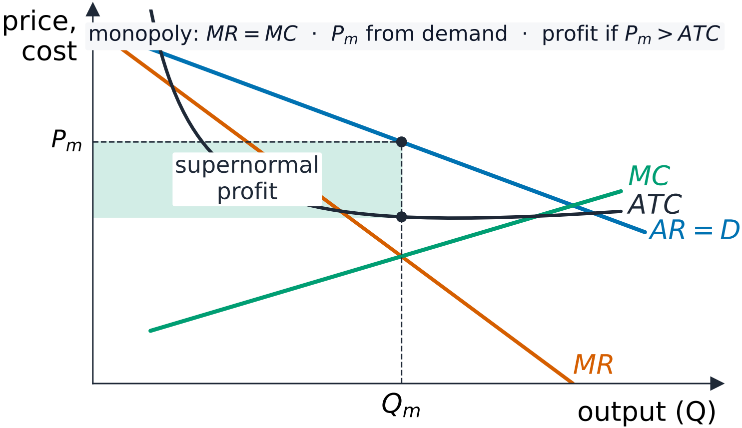
- **Perfect competition 完全竞争**: many firms, no barriers, identical product, **normal profit** only; efficient.
- **Monopolistic competition 垄断竞争**: many firms, differentiated product, normal profit long-run.
- **Oligopoly 寡头垄断**: a few firms, high barriers; may **collude 合谋** (a **cartel 卡特尔**).
- **Monopoly 垄断**: one firm, high barriers, **supernormal profit 超常利润**, often inefficient.
- **Price discrimination 价格歧视**: charging different groups different prices.

Answer shapes: an **Explain [up to 8]** answer may use a firm diagram (AO3); **Discuss [12]** adds a judgement (AO4).

Method — The spectrum of competition

Many firms (perfect competition) at one end; one firm (monopoly) at the other

Method — The spectrum of competition



A monopoly produces where $MR = MC$ and earns supernormal profit behind high barriers

Practice 2.1 ▪ 2 marks

State two features of **perfect competition**.

Solution 2.1

Method: The spectrum of competition

Worked steps

any two of: very many firms; no barriers to entry; identical (homogeneous) product; firms are price takers; perfect information $(1 + 1)$.

Practice 2.2 ▪ 2 marks

Define the term *price discrimination*.

Solution 2.2

Method: The spectrum of competition

Worked steps

charging different consumers different prices for the same good (2 for a clear definition; 1 for a partial idea).

Practice 2.3 ▪ 1 mark

State why a monopoly can earn supernormal profit in the long run.

Solution 2.3

Method: The spectrum of competition

Worked steps

because high barriers to entry stop new firms competing the profit away (1).

Exam-style 3.1 ▪ 1 mark

In long-run equilibrium, a perfectly competitive firm earns:

- **A** supernormal profit
- **B** normal profit only
- **C** subnormal profit
- **D** zero revenue

Solution 3.1

Method: The spectrum of competition

A supernormal profit

B normal profit only ✓

C subnormal profit

D zero revenue

Worked steps

B. Free entry competes profit down to normal in the long run.

Exam-style 3.2 ▪ 8 marks

Using a diagram, explain how a monopoly can earn supernormal profit.

Solution 3.2

Method: The spectrum of competition

Worked steps

[8] AO1 1 + **AO3 diagram up to 4** (AR/MR, MC, ATC; output where MC = MR; price read off AR above ATC; supernormal profit shaded) + AO2/AO3 up to 3 — the monopoly produces where MC = MR, then charges the higher price buyers will pay → price exceeds average cost → the firm earns supernormal profit, protected by barriers to entry.

Exam-style 3.3 ▪ 12 marks

Discuss whether a monopoly is always worse for society than perfect competition.

Solution 3.3

Method: The spectrum of competition

Worked steps

[12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **Against monopoly:** higher prices, lower output, allocative and productive inefficiency, possible complacency. **For monopoly:** economies of scale can lower costs, supernormal profit can fund research (dynamic efficiency), and a natural monopoly avoids wasteful duplication. Judgement: monopoly is not *always* worse — it depends on whether economies of scale and innovation outweigh the higher price and inefficiency, and on regulation.