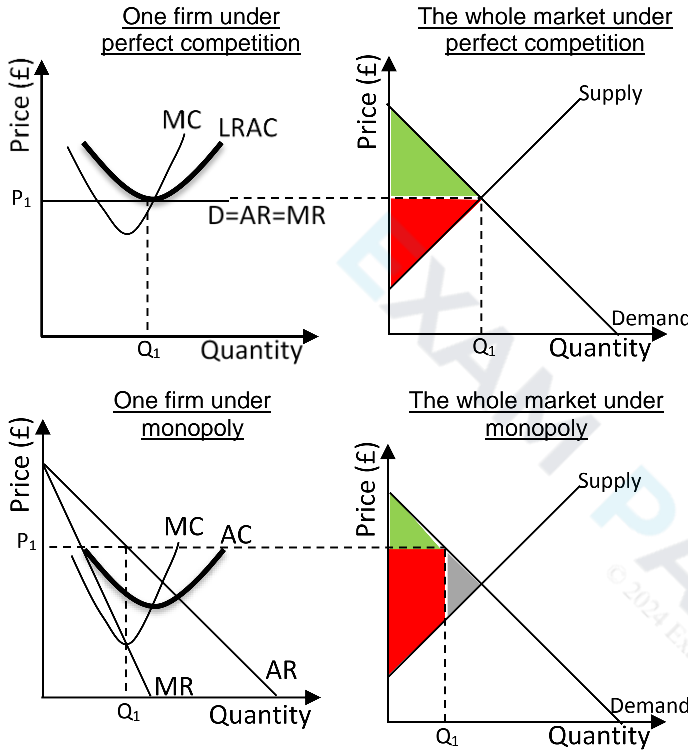
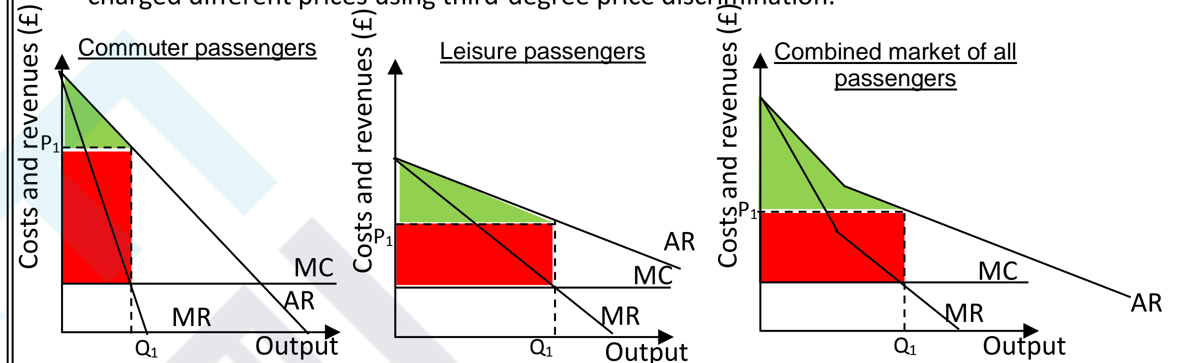


Price discrimination – the diagrams below show the MR, AR and MC curves for a monopolist firm for whom the marginal cost of producing an extra unit is constant. Initially the firm charges the same price to everyone, the diagram on the right shows the combined market. The diagrams on the left show the impact of separated markets which are being charged different prices using third-degree price discrimination.



Which of the two markets (commuter or leisure passengers) has the more price elastic demand? **Leisure passengers**

Show the quantity/price combinations for the firm if it is profit maximising in the commuter, leisure and in the combined market. Draw the areas of producer and consumer surplus in each of these markets.

After implementing third degree price discrimination, what has happened to the area size of the
i) consumer surplus? **Shrink**
ii) producer surplus? **Grow**

The diagrams above on the left show the Marginal Cost, Average cost, Marginal revenue and Average revenue curves for profit maximising firms in a perfectly competitive market and in a situation of monopoly. On the right show the market supply and demand curves for these markets. For both sets of market supply and demand curves, shade the areas (where applicable) of
i) consumer surplus
ii) producer surplus
iii) deadweight welfare loss

If the market structure changed from Perfect competition to Monopoly, what would happen to the area size of the
i) consumer surplus? **Shrink**
ii) producer surplus? **Grow**
iii) total surplus? **Shrink**

Oligopolistic market behaviour– for each market behaviour below, label them as collusion, competition or cartel.

Price fixing **Cartel**
Making a product more differentiated **Competition**
Price wars **Competition**
Joint product development **Collusion**
Advertising **Competition**
Limit pricing **Competition**
Output fixing **Cartel**
Predatory pricing **Competition**

Define these different types of economic efficiency

Productive efficiency – the level of output at which average costs are minimised

Allocative efficiency – occurs when it is impossible to improve economics welfare by reallocating resources between markets

Static efficiency – efficiency at a particular point in time

Dynamic efficiency – occurs in the long run, leading to the development of new products and more efficient processes that improve productive efficiency

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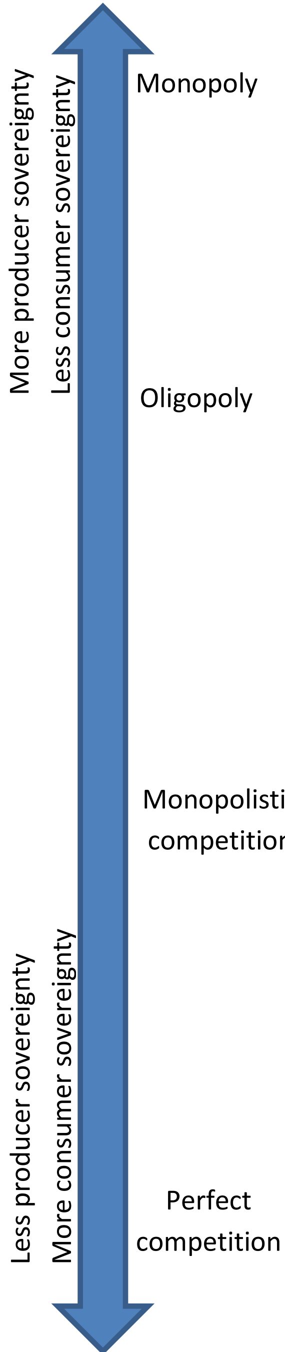
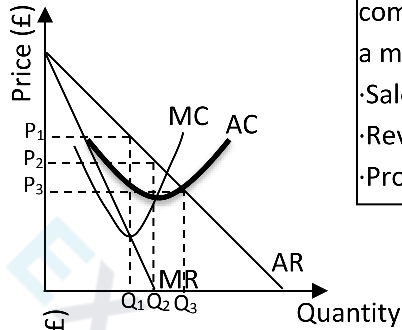




Which of the quantity/price combinations Q_1/P_1, Q_2/P_2, Q_3/P_3 shows a monopoly firm producing at the

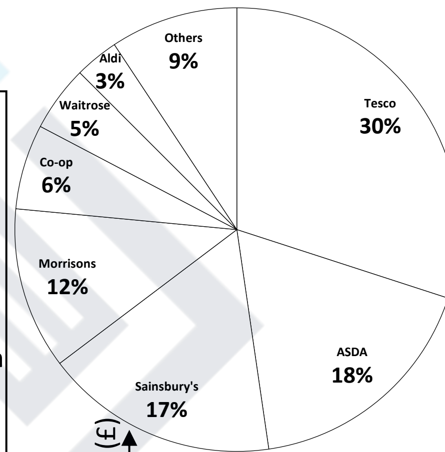
- Sales maximising output? **Q_3/P_3**
- Revenue maximising output? **Q_2/P_2**
- Profit maximising output? **Q_1/P_1**

Using the pie chart calculate the:

3 firm concentration ratio **65%**

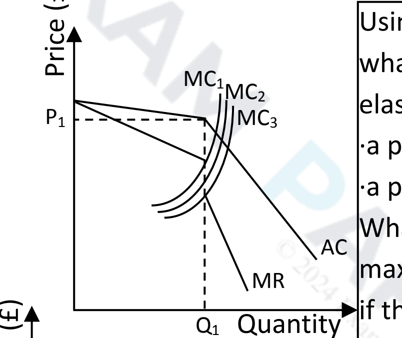
5 firm concentration ratio **87%**

Market share of supermarkets in the UK



Write down the six conditions of perfect competition

1) **Large number of buyers and sellers**
2) **Buyers and sellers possess perfect market information**
3) **Buyers and sellers can buy/sell as much as they wish**
4) **Any single buyer or seller is unable to influence the price**
5) **All goods are homogeneous**
6) **No barriers to entry or exit**

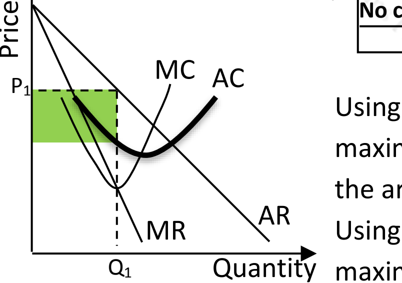


Using the diagram on the left describe what is happening to the relative price elasticity of demand when there is

- a price increase from P_1 **Relatively price elastic**
- a price decrease from P_1 **Relatively price inelastic**

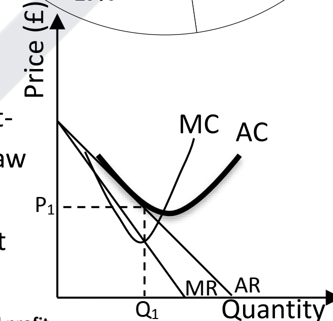
What would happen to the profit maximising quantity/price combination if the MC shifted from MC_1 to MC_3?

No change



Using the diagram on the left identify the profit-maximising quantity/price combination and draw the area of abnormal profit.

Using the axes on the right draw long-run profit maximisation in monopolistic competition.

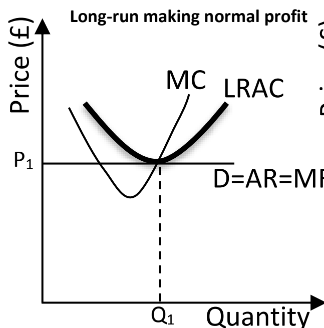


For each of these diagrams showing a firm under perfect competition:

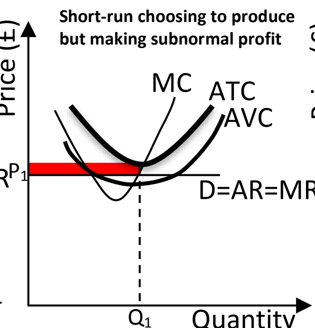
1) draw the area of abnormal/ subnormal profit (if applicable)
2) Give each a label from the following:

- short-run choosing to produce but making subnormal profit
- short-run making abnormal profit
- short-run which would choose not to produce
- long-run making normal profit

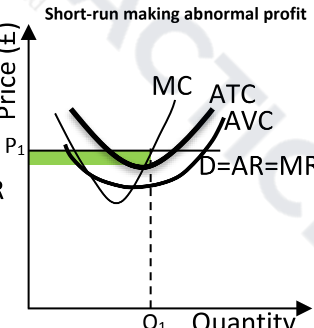
Long-run making normal profit



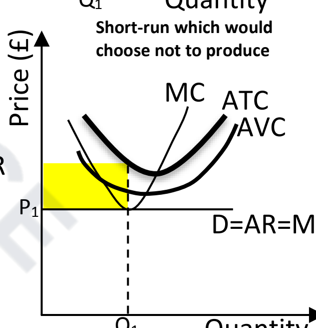
Short-run choosing to produce but making subnormal profit



Short-run making abnormal profit



Short-run which would choose not to produce



5 Perfect competition, imperfectly competitive markets