1. Why do you think concentration ratios differ so much from one industry to another?

*Answers might include:*
May depend on:
- Economies of scale
- Government intervention

2. What do you think are the possible effects of a high concentration ratio of on:

A: customers?

May lead to higher prices, less innovation and lower customer service if businesses become complacent OR to hold on to their positions it may lead to improvements in what is offered. This is the big debate about monopoly power.

B: investors?

Should lead to abnormal profits and higher returns for investors.

3. Do you think that these ratios would be the same in other countries?

Depends on economies of scale and government intervention.

4. Why might they change over time?

- May change with technology providing greater ability to grow and manage growth
- May change as government policy towards monopolies alters
- May change as organisations change strategy e.g. focus on growth

**Think About It 9.1**

Can you think of any markets in your economy in which the concentration ratio has changed in recent years? Why and how has it changed?

*Answers might include:*
Will depend on their country but may well have changed in airline industry, car industry, banking, oil, pharmaceuticals with takeovers and mergers.

**Think About It 9.2**

Why do you think there are so many taxi businesses and hairdressers in the UK, but relatively few electricity or train companies?

*Answers might include:*
- Very labour intensive
- Lack of economies of scale
• Not much incentive to expand if there are no cost advantages

p.252
Business Analysis 9.1

1. What does the item above suggest about what happens in markets that are difficult to enter? Why doesn't the UK government let anyone set up a taxi cab business?

Answers might include:
• If markets are protected this may lead to poor customer service
• May be a lack of incentive
• May lead to poor quality
• Governments want to control health and safety and make sure that providers are properly regulated

Think About It 9.3

2. Can you think of markets other than those mentioned above in which the barriers to entry have been reduced by the internet?

Answers might include:
Many industries now being changed – music, travel, furniture manufacturing, retail, insurance.

p254.
Business Analysis 9.2

Apart from its special mix of metals why else do you think Zildjian has been able to dominate the world cymbal market for so long?

May have specialist knowledge of the process; may have patented process; may have access to good suppliers; may have highly trained staff; rewards may not be especially high so not attracting others into the market.

p258.
Think About It 9.4

Which of the following statements are true and which are false?

In perfect competition, businesses must make normal profits in the short run:
False; long run not short run

In perfect competition, the marginal revenue curve for a business equals the price:
True

In perfect competition, an individual firm is small relative to the industry as a whole:
True
In perfect competition, a business is a price-taker:
True

In perfect competition in the long run, the price equals the marginal revenue equals the marginal costs equals the average cost:
True

p260.
Think About It 9.5

1. Can you think of any other brands that clearly try to differentiate themselves from the competition? How do they do this?

Many examples- Coca Cola, Nike, Reebok, Intel- all build the brand image to develop loyalty

2. If they are successful, how easy is it for others to copy what they are doing?

May be difficult to build the same knowledge, the same links, the same expertise.
May be difficult to copy the image, values and reputation.
Cannot directly copy the design if it is trademarked or the name but may imitate the image- however the brand is more than this.

p261.
Think About It 9.6

1. As a manager, would you prefer your business to be in a monopoly position or a perfectly competitive market? Why?

As a monopolist you have more control over the market. You can set prices and earn abnormal profits. Managers would presumably want to be in this more dominant position.

2. In what ways do you think a monopolist might exploit its customers?

Answers might include:
- May increase prices
- May reduce quality of product
- May reduce quality of service
- May reduce investment in innovation

p262.
Business Analysis 9.3

Do you think that Apple’s behaviour is anti-competitive?

Is it preventing competition? Is it leading to consumers lacking choice? Are consumers paying ‘too much’? Is it stopping others entering this market?

Answers might include:
You could argue that it is preventing competition between retailers. The agency model means that the publishers set the price; this will be popular with publishers as it protects their earnings. The result is that retail will not end up fighting by cutting
price- this might have protected Apple from the price wars by Amazon. The customer may well end up paying more than if retailers could set price and so it could be seen as anti-competitive.

This model does not stop other retailers entering the market but it limits their ability to try and take market share with low prices as it helps protect Apple’s place in the market.

p264.
Think About It 9.7

Which of the following statements about a monopoly are true and which are false?

A: The marginal revenue curve equals the average revenue:
False; the marginal revenue is below the average revenue and diverges

B: The monopolist profit maximizes when marginal revenue equals marginal cost:
True

C: A monopolist can make abnormal profits in the long run as well as in the short run:
True; due to barriers to entry

D: A monopolist is allocatively efficient in the long run:
False; the price is above the marginal cost

p265.
Think About It 9.6

Can you think of three different brands of chocolate and the particular reason for purchase that they are targeting?

Over to you!

p.267
Business Analysis 9.4

As a customer, do you think that you benefit or suffer from price discrimination?

May depend which price you pay- the higher or lower! May benefit because without it the product may not be provided at all.

p270.
Business Analysis 9.5

How do you think companies are able to offer different exchange rates in different cities?
Because of the costs to the consumer of finding out the different prices, the costs e.g. effort and time of moving from one seller to another. There may be (relatively short time periods) when minor differences can exist.

Suggested Answers to Short Answer Questions

1. Profit maximization occurs at the highest output where marginal revenue equals marginal cost.
2. Abnormal profit occurs when the average revenue is greater than the average cost. Normal profit occurs when average revenue equals average costs; costs include opportunity cost and so when normal profits are made a profit may be made in accounting terms (as accountants do not include opportunity costs).
3. This occurs when the social marginal benefit equals the social; marginal cost.
4. Barriers to entry make it difficult for firms to enter a market e.g. the cost of entering, the licenses needed, the skills or access to resources needed.
5. Produces up to the output where marginal revenue equals marginal costs.
6. Many firms; homogeneous products; freedom of entry and exit; perfect information.
7. In the short run a firm in perfect competition can make abnormal profits or losses; however entry and exit occurs until only normal profits are made in the long run.
8. A monopolist can make abnormal profits even in the long run due to barriers to entry.
9. Different prices are charged in different markets for the same product.
10. Need to be able to separate the market, need different demand conditions in each market, need to prevent resale in the more expensive market.