p274. Think About It 10.1

You are running a shoe shop in a city centre. How could you differentiate your business from the other shoe shops nearby? What about a taxi business?

Shoe shop: Could differentiate by the product range, the customer service, the brand of the store, the packaging.

Taxi business: the name, the type of cars, the response time, the customer service.

p275. Think About It 10.2

1. What do you think determines the slope of the demand curve in a monopolistically competitive market?

How price sensitive demand is; depends on the strength of the brand, the availability of substitutes, brand loyalty.

2. What makes you choose one restaurant rather than another? How loyal are you?

Location, menu, service, price, décor, environment.

p277. Business Analysis 10.1

1. Can you think of any other oligopoly markets in your economy?

Many markets are oligopolistic; be interesting to see what market conditions are like in different countries. In the UK it includes banks, petrol stations, airlines, car companies and supermarkets.

2. Why do you think these markets are oligopolistic rather than more competitive?

Answers might include:
Due to economies of scale providing an incentive to expand.
Due the existence of barriers to entry e.g. through differentiation and brand loyalty.

p278. Think About It 10.3

Assume that you are managing a chain of juice bars stores across the UK. You are reluctant to cut price in case it simply leads to everyone cutting price and sales do not increase significantly. How else could you compete?

Answers might include:
- Could compete on service
- Brand
- Range of flavours
- Special offers
• Décor
• Environment of the place

p279.
Business Analysis 10.2

1. What might be the consequences of these changes in the construction industry?

*Answers might include:*
- May affect the price charged
- The quality of the service
- The speed of work done
- The degree of innovation and customer service

2. How should the government react to such changes?

*Answers might include:*
- May want to investigate to check pricing
- May prevent firms colluding
- May prevent monopoly power by forcing the sale of some assets
- May fine companies involved in anti-competitive behaviour

p281.
Think About It 10.4

Why do you think car manufacturers continued to work with Yazaki and Denso rather than other parts producers?

*Answers might include:*
- Speed of service
- Flexibility of production
- Customer service
- Payment terms
- Quality of the work

p285.
Business Analysis 10.3

Assuming the maximum outcomes are taken:

What is the best strategy for firm A if B increases promotional spending?
Increase promotional spending

What is the best strategy for firm A if B does not increase promotional spending? Not increase promotional spending

What is the best strategy for firm B if A increases promotional spending?
Increase promotional spending
What is the best strategy for firm B if A does not increase promotional spending? Increase promotional spending

p286.
Think About It 10.5

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

A: The kinked demand curve is a model in which firms cooperate: False

B: In a cartel, the industry produces at the point at which marginal revenue equals marginal costs: True

C: In game theory, businesses base their decisions about what to do on assumptions about what others are doing: True

D: In oligopoly, a few firms dominate the market: True

p288.
Business Analysis 10.4

1. Analyse the potential benefits of owning a patent.

Protect your ideas from copying; can generate the profits of the idea for longer; can sell the patent as an asset.

2. How would you value a patent?

- Can try and estimate what it would sell for
- Can try and estimate future profits generated by the invention

Think About It 10.6

What do you think are the long-term consequences for the industry of illegally downloading music?

Answers might include:
- May change who competes in the industry
- May make music more available
- Increase customer choice e.g. ability to build own playlists, buy single tracks
- May make it easier for bands to market themselves directly
- May enable bands to raise fund directly
Data Analysis 10.1

With reference to Porter's five forces model, why do you think the rates of return might have differed so much between these industries?

*Answers might include:*
High returns may be due to:
- High barriers to entry
- Low substitute threat
- Low rivalry
- Low buyer power
- Low supplier power

Business Analysis 10.5

Are there any areas in which you think consumers still need protection?

Over to you!

Think About It 10.7

If the majority of mergers and takeovers have led to poor performance, why do so many still occur?

*Answers might include:*
- Managers think their deal is unlike the others
- Managers believe they can outperform other managers
- Managers may still get the rewards for doing the deal even if it does not succeed
- Some succeed and this is an incentive to try and repeat this success

Think About It 10.8

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

A: A business maximizes its revenue when marginal costs are zero:
False; when marginal revenue is 0

B: A business maximizes profits when marginal revenue equals marginal costs:
True

C: A business produces the highest level of output without making a loss when the average revenue equals the average variable cost:
False; average revenue needs to equal average costs for normal profit

D: A normal profit is made when average revenue is greater than average costs:
False: this is abnormal profit
Suggested Answers to Short Answer Questions

1. Monopoly has a single seller; monopolistic competition has many sellers’ monopoly has barriers to entry; monopolistic competition has freedom of entry and exit.
2. There will be entry of other firms so demand for this firm’s products will fall until only normal profit is earned.
3. A market dominated by relatively few sellers.
4. Occurs when two firms make decisions in their own interests which leave them worse off than if they had cooperated with each other.
5. Assumes price increases are not followed so revenue would fall; price decreases are followed so revenue would fall; therefore leave prices where they are.
6. There is an incentive to cheat and increase your own profits at the expense of others in the industry.
7. Occurs where marginal revenue is 0.
8. Occurs when the decisions made satisfy different interest groups rather than maximize any outcome; decisions are the results of compromise and bargaining.
9. Rivalry. Threat of entry, substitute threat, buyer power, supplier power.
10. Horizontal occurs between firms at the same stage of the same production process; vertical occurs at different stages of the same production process.