**RWS#6: Market Failure #1 - Monopoly**

**Due for: First lesson – Monday 3rd February 2020**

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| **GENERAL INSTRUCTIONS:**  *Please complete a revision worksheet summarizing the work from the last two weeks. The work should be taking you* ***up to 3 hours*** *to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).*  *Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!*  *You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there are a few extras I want you to read.*  *This revision worksheet should be taking you 2.5 hours…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next hour reading any extra information or clarifying concepts if you do not understand them. Then use the final 45 minutes to edit the work, make it look pretty and print it off.*  *REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGE*  *ALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK* |
| **SOURCES**  **Compulsory**   * Course Textbook (access through library website or link from previous email) – pp 77-91 (read these pages – it is vital that you do so) * Class and PREP homework notes (in your bag!) * 3 Articles on GOL   **EXTENSION (IF YOU HAVE TIME, TRY TO READ OR WATCH THESE)**  Economics Help Website  Tutor2U Website  Extra articles on GOL – try to read 2  **ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** [**ods@godalming.ac.uk**](mailto:ods@godalming.ac.uk) |

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| **SPECIFIC INSTRUCTIONS:**  **TITLE: RWS6 – Market Failure #1: Monopoly**  **SPECIFIC INSTRUCTIONS**   1. **Theory of the Firm Basics *(1/2 a side of A4)***    1. Production Function       1. What are ‘Inputs’ and ‘Outputs’ in the production process?       2. Define the concepts of ‘revenue’, ‘costs’ and ‘profit’ (including normal and abnormal definitions)       3. Why does the short run and long run production differ according to economists?    2. Short Run Average Cost, Revenues and Profit       1. Explain why the short run average cost curve (SRAC) U-shaped? HINT: Specialisation (Division of Labour) and Diminishing Marginal Returns (explain these terms)       2. Why is the average revenue curve the demand curve? AR is just Price is a hint??       3. Brief explain how the elasticity of the AD curve might affect pricing decisions by firms because of the effect on revenue.       4. Using an AR and SRAC diagram, show normal profit and abnormal profit    3. Long Run Average Cost       1. Define the terms Internal ‘Economies of Scale’ and ‘Diseconomies of Scale’ and explain the sources of both these concepts       2. Why is the LRAC (Long Run Average Cost Curve) U-shaped? HINT: Economies of Scale and Diseconomies of Scale? Also what effect will Economies of Scale have on the SRAC curve?       3. What are ‘external’ economies and diseconomies of scale? Provide examples and explain what will happen to the LRAC curve if external effects increase or decrease LRAC. 2. **Market Structure: Perfect Competition .v. Pure Monopoly *(1/2 a side of A4)***    1. Define the concept of perfect competition and pure monopoly using one example each to try and illustrate your answer. Remember to include as part of your definitions the conditions needed for both perfect competition (refer to the 4 conditions and ‘normal profit’) and pure monopoly (refer to barriers to entry and supernormal profits).    2. Other types of monopoly – define the following terms and use an example to illustrate each one: ‘Pure Monopoly’, ‘Monopoly Power’ and a ‘Legal monopoly’ as defined by the UK Government. You can use the same example twice for the definitions above if you so wish.    3. Why in a perfectly competitive market are firms ‘price takers’ and in a monopoly market, firms are ‘price makers’? 3. **Monopoly as a Market Failure? *(1/4 a side of A4)***    1. Explain (using an AR and SRAC diagram) why monopoly is considered to be a market failure (HINT: use words such as ‘allocative inefficiency and underproduction’ and ‘productive inefficiency’. See the textbook pp 89 to help.    2. Explain why certain elements in the Supermarket industry might be considered to have features of monopoly 4. **Evaluating Monopolies as a Market Failure? *(1/4 a side of A4)***    1. What are the advantages of a market with monopoly power? Use a diagram or diagrams to help explain your answer. Think LRAC and size of monopolies    2. Even if there is a monopoly, why might its existence not be that bad – refer to the supermarket industry? And also explain why might the supermarket industry not be too much of a monopoly to evaluate the claim there is a market failure. 5. **Government Intervention and Failure: Regulation *(1/2 a side of A4)***    1. What is regulation? Provide some examples of how a Government might regulate a market?    2. Using the case study of monopoly power in the grocery market (supermarkets), fill out the following table:  |  |  | | --- | --- | | Government Intervention (why has the intervention worked?) | Government Failure (why has the intervention not worked?) | |  |  | | CONCLUSION: (which argument do you think carries more weight above and why?) | | |  | | |