**Monopoly**

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| **GENERAL INSTRUCTIONS:**  *Please complete a revision worksheet summarising the work that you have covered on Monopoly . 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.*  *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!* |
| **SOURCES**   * Course Textbook * Tutor2u resources * Econplusdal and pajholden clips * Economicshelp website |

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| **SPECIFIC INSTRUCTIONS:**  **TITLE: Market Failure: 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 supernormal 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.    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. Explainwhy monopoly is considered to be a market failure (HINT: use words such as ‘allocative inefficiency and underproduction’ and ‘productive inefficiency’.    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?) | | |  | | |