Question 26

(a) Explain why less market competition might lead to higher and more stable prices. [10]

**To explain why the industry with less market competition will have higher and stable price, there is a need to understand how price and output decision is influenced by the profit maximizing rule based and the impact of barriers to entry on the market.**

**For Example:**

**Explain why less market competition might lead to higher and more stable prices. [15]**

introduction – how price and output decision based on profit max will lead to higher and stable price as explained by the concept of profit maximization ( set the requirements of the question and the economic principles to be applied)

main body

1. Explain the features of firms in the less market competition and how their MR and AR will be (Oligopoly and Monopoly) – higher BTEs – High degree of market power
2. how price and output is set based on profit max.
3. how less market comp will influence price and out decision (draw diagram and describe the diagram
4. why it will be higher price – high degree of market power – set price and output – steep MR and AR – price inelastic profit maximization level is at a low ouput level and the price will be high – based on law of demand – reflective of the condition of market power – price setting power to raise price to maximize profit
5. why it will be stable price –

monopoly set the price and no other firm can change it

price rigidity – no advantage to increase or decrease price – mutual interdependency (must explain why the firms in oligopoly will not change price)

price collusion – abide the price set by the market – reduce market unpredictability to set price by abiding to price leadership - raise their power to set higher price and gain more revenue to praise profit

1. analysis – significance of the factor – high degree of market power – why ? – it determines the slope of MR and AR.

conclusion

**in sum, the profit maximizing will explain how price and output are set and it can be observed that the degree of market competition will explain why price is set high and will be stable. This understanding will help government to derive policies to regulate the firms in the oligopolistic and monopolistic market in the interests of the society,**