Revision for market structures

**Q3** **Representatives from the food and beverage (F&B) industry have called on the Singapore government to provide more help, saying businesses have been hard hit by the Covid-19 restrictions such as the ban on dine-in customers. Border closures has also thwarted firms from recruiting foreign employees. Meanwhile many F&B firms have turned to digital platforms for online orders.**

1. **Explain how the Covid-19 restrictions have adversely affected the profits of an F&B firm. [10]**
2. **Discuss whether smaller F&B firms like hawker stalls or larger F&B firms like restaurants are more likely to survive the pandemic. [15]**

Part (a)

Suggested Answers

Profit of a firm is derived from Total Revenue (TR) less (minus) Total Cost (TC). Hence changes in revenue and costs will affect the F&B firm’s profitability.

To slow the spread of Covid-19, the government has imposed various restrictions, including F&B firms are ordered to ban dine-in customers to reduce social contact. The populace is persuaded to remain mostly indoors, and international borders are closed, disallowing international travels. Some foreign employees are prevented from returning back to work in Singapore and without these foreign hires, the F&B firms have to pay higher wages to employ local workers from a smaller pool of labour, increasing its cost of production.

How the Covid-19 restrictions affect a F&B firm’s profit is analysed by examining the impacts on its revenue and costs.

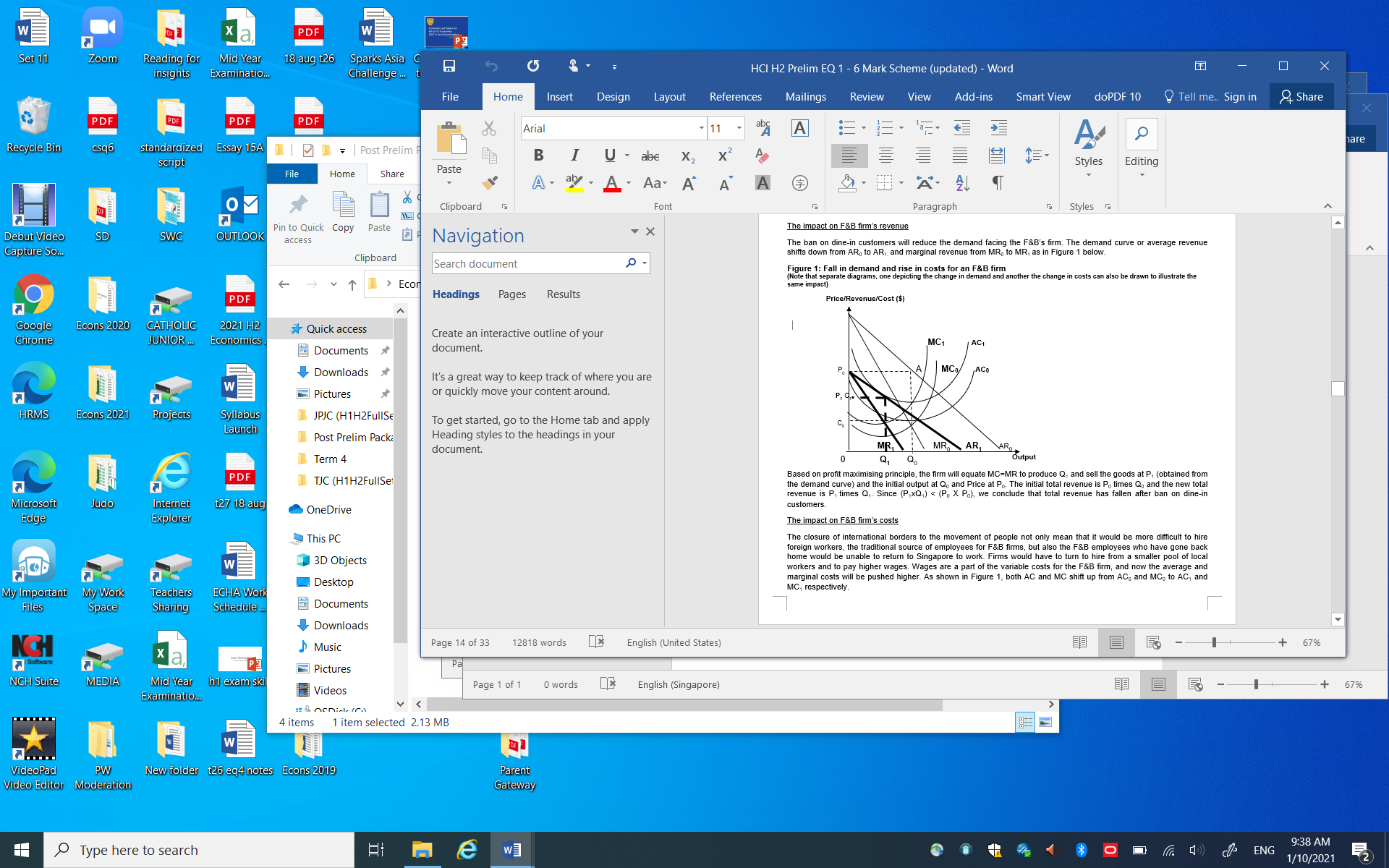
**Body**

The impact on F&B firm’s revenue

The ban on dine-in customers will reduce the demand facing the F&B’s firm. The demand curve or average revenue shifts down from AR0 to AR1, and marginal revenue from MR0 to MR1 as in Figure 1 below.

**Figure 1: Fall in demand and rise in costs for an F&B firm**

**(Note that separate diagrams, one depicting the change in demand and another the change in costs can also be drawn to illustrate the same impact)**



Based on profit maximising principle, the firm will equate MC=MR to produce Q1 and sell the goods at P1 (obtained from the demand curve) and the initial output at Q0 and Price at P0. The initial total revenue is P0 times Q0 and the new total revenue is P1 times Q1. Since (P1xQ1) < (P0 X P0), we conclude that total revenue has fallen after ban on dine-in customers.

The impact on F&B firm’s costs

The closure of international borders to the movement of people not only mean that it would be more difficult to hire foreign workers, the traditional source of employees for F&B firms, but also the F&B employees who have gone back home would be unable to return to Singapore to work. Firms would have to turn to hire from a smaller pool of local workers and to pay higher wages. Wages are a part of the variable costs for the F&B firm, and now the average and marginal costs will be pushed higher. As shown in Figure 1, both AC and MC shift up from AC0 and MC0 to AC1 and MC1 respectively.

The impact on F&B firm’s profit

Synthesizing the two impacts together, from the firm’s perspective, consumers pay a lower price due to lower demand and at the same time costs rise due to higher variable costs. The profit maximising price is at P1 which corresponds to a lower output at Q1 where MC1 cuts MR1. Price will decrease from P0 to P1 and unit cost will increase from C0 to C1 and thus unit profit falls.

Conclusion

The Covid-19 restrictions with the intention to reduce social contact has also made people less open to dining out and also more families preparing home meals themselves and with work from home (WFH), it has exacerbated less eating out. This has lowered the demand facing F&B firms. On the cost front, the restrictions not only raised higher variable costs due to higher wages payable, other costs are added on as firms turned to accepting online orders and subscribing to apps from delivery vendors, further eroding profits of the F&B firm. In short, the fall in demand and the rise in costs resulted in the fall in profits.

1. **Discuss whether smaller F&B firms like hawker stalls or larger F&B firms like restaurants are more likely to survive the pandemic. [15]**

**Introduction**

From part (a), it is noted that during the Covid-19 pandemic, together with the government restrictions, F&B firms faced a reduction in total profits and possibly earn subnormal profits, making them vulnerable to closure.

For firms to survive the pandemic in the long run, a firm’s TR must be at least equal to TC. While operating its business in the SR, the firm’s TR must be at least equal or exceed its TVC for it not to shut down.

Some aspects of the nature of hawker stalls and large restaurants could help determine their survival ability in this pandemic, for example, if hawker stalls sell largely inferior goods, whilst restaurants normal or luxurious good, then the likelihood of hawker stalls surviving will be higher.

To reduce vulnerability to closure, it is essential for firms to employ cost cutting measures to remain competitive so as to hold on to at least some market share in a shrinking consumer base. Strategies that firms can employ to reduce vulnerability to closure can be categorised into those that boost demand and hence revenue and those that reduce total costs.

In this essay, I shall examine how competition strategies are used by both small F&B firms (hawker stalls) or larger F&B firms like restaurants are used and analyse their likelihood to succeed with these strategies and thus survive the pandemic. In addition, I would consider the inherent nature of these F&B firms and come to a conclusion at the end what feature is critical and which F&B firms will likely to survive the pandemic.

**Body**

Price strategies – lowering of prices

Both small and big firms face a more competitive environment during the pandemic, not only do they compete in their own category of firms but also stretched wider into the broader market, for example, restaurants are not only competing amongst themselves, but they are also likely to compete with hawker stalls near the vicinity as consumers are now more cautious in their spending behaviour.

Lowering prices to attract and retain consumers are practised by both small and large firms. However, if prices set is so low, the firm may suffer a huge loss in profits. Usually firms use past accumulated supernormal profits to cushion the loss, and generally larger restaurants rather than the smaller hawker stalls have such profit reserves to enable them to use this strategy.

Firms can also attempt to reduce costs so that they could lower prices. It may be argued that hawker stalls are mostly run as family business by family members or relatives, hence the higher employment costs arising from border closure may not affect them so drastically compared to restaurants that may need to hire foreign workers.

One way to lower cost is go for cost sharing by merging with other firms. A merger or a collusion would not only boost market share but also reap economies of scale, for example, combining the delivery service of different firms to customers in the same vicinity or locations help lower costs.

Other cost-cutting measures like retrenching workers to reduce variable costs could also be adopted. However, the larger restaurants are likely to have excess service staff unlike hawker stalls which normally run on minimal number of workers.

Non-price strategies

Some possible non-price strategies that can be used include engage in advertising & promotion and product innovation to create product awareness and boost the chance of survival and bolster market share.

Advertising can also help to build publicity and increase competitiveness of the product by persuading and strengthening consumers’ tastes and preferences towards the product. This could help reduce the fall in demand for the firm’s product during the pandemic. Product innovation and introducing new recipes through innovation can attract more consumers and both restaurants and hawker stalls could try them.

F&B firms can advertise online and accept orders to increase their sales like partnering with delivery vendors such as GrabFood, Food Panda and Deliveroo. Joint promotion of free delivery fees with a certain minimum order can be offered to attract more customers.

Other considerations

It is often said that hawker stalls’ food may be considered as an inferior good in the eyes of consumers. The current pandemic has induced a global recession, and therefore greater amount of inferior good may be demanded when income falls, compared to normal or luxurious goods that are sold in restaurants. This seems to benefit the hawker stalls more than the restaurants.

Conclusion

F&B firms can employ strategies to reduce costs and boost revenue to reduce their vulnerability to closure during a recession. It may seem that larger restaurants would have the resources to compete, innovate and advertise their product to prevent closure compare to smaller hawker stalls.

Non-pricing strategies like advertisement and innovation would be more applicable to firms with significant market power like restaurants because they have more funds from past profits. These strategies would not have been feasible for smaller hawker firms which tend to earn only normal profits in long run because of the low barriers to entry.

However, the success of advertising & promotion and innovation is uncertain and large-scale advertisements to shift consumers’ tastes and preferences can be very costly as it requires time to change consumers’ purchasing habits.

The adoption of online apps allows for the expansion of network bandwidth which may help both the hawker stalls and restaurants to tap on a network to expand its scale of production to gain internal economies of scale (EOS).

Whether a large firm like a restaurant or a small firm like a hawker stall is more vulnerable to closure during the pandemic depends largely on the attributes and behaviour of the individual firm. Some hawker stalls are well-liked with strong brand loyalty and there are also some restaurants that have a large following. The success of a F&B firm lies predominantly in the food that they sell and it is the consumers’ tastes and preferences that holds the key to the survival of the firm. F&B firms generally have high variable costs as the serving of food is labour intensive, so unless the demand curve of a firm is high with strong demand, the ease of it falling below a high AVC in a recession is highly probable in the SR. Thus, we would not generalise that it is the larger firms like restaurants or the smaller hawker stalls that are likely to survive the pandemic. The key to survival lies more on the demand side of the firm than the costs.

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| **2** | **“Former Singtel group CEO Chua Sock Koong said in an interview with Bloomberg: “The only way (a fourth telco) can gain customers will be by way of reducing prices … The existing operators would look at how best to respond. Clearly just leading prices down, it’s not good for the sustainability of the industry.”**  **Source : *Bloomberg: April 2021*** | |  |
|  | **(a)** | **Explain which market structure best describes the telco market in Singapore.** | **[10]** |
|  | **(b)** | **Discuss whether competition is the main reason for falling prices in the telco market.** | **[15]** |

**Synopsis**

There is a need to link the characteristics of oligopoly to the telco industry. Key characteristics that need to be included are few sellers, barriers to entry and interdependence between firms.

**Introduction**

Market structures are identified by their characteristics. Some of the key characteristic are the number of buyers and sellers in the markets, nature of product, barriers to entry. Telco firms, operates in an Oligopoly market structure.

**Body**

**1. Number of buyers and sellers**

There are a few relatively large firms dominating the industry. In the preamble it was mentioned that there are only 4 Telco firms in the market. 'Fewness' implies that the firms are able to set their own price. The small number of firms present in the market would also mean that each firm produces a substantially large output and is able to reap internal economies of scale. Changes in output of the large firm will affect the market output.

**2. Nature of product**

An oligopoly firm can produce an *identical product* or *differentiated product. In the Telco market,* firms produce differentiated products. These differences are mostly real rather than imaginary. Their product vary in terms of bundles eg talk-time and data bundles. Some even provide mobile data sharing with family members and free use of mobile data on weekends. Due to product differentiation, each firm has monopoly power and they usually engage in non-price competition.

**3 Barrier to Entry**

Barriers to entry are obstacles that prevents new competitors from competing on an equal basis with established firms in an industry. The obstacles may be naturally existing or artificially created by firms. High barrier to entry exist in the Telco market. They come in the form of both natural and artificial barriers.

**a. Natural BTE**

**- High (Fixed) Cost.**

Firms in the telco industry experiences high fixed cost especially in setting up their firm. For example, to supply telco services to households, the fixed inputs required would be to lay underground cable lines at different locations, which would be a complicated and costly activity. With a high fixed cost, total cost (TC=TFC+TVC) would also be high. A high fixed cost discourages the less financially able firms from entering the industry due to the high capital requirements.

**- High Sunk Costs**

**Sunk costs** are *costs* that *cannot be recovered* if firms decide to leave an industry. Examples include money spent on advertising, marketing or research which cannot be carried forward into another market or industry if a firm decides to leave the telco market. High sunk costs act as a *barrier to entry* of new firms since they risk making huge losses if they decide to leave the market.

**b. Artificial Barrier**

**- Requirement of Licences in order to operate**

One key artificial barrier in the telco industry is the need for government licence in order to operate. In Singapore the government keeps a close tab on firms wanting to enter the telco industry. It limits competition by requiring new firms to obtain a licence in order to operate.

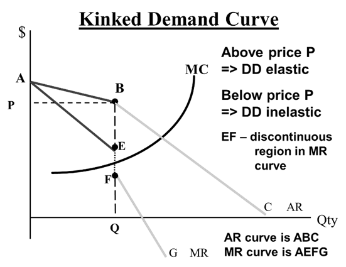
**- Strategic (Artificial) Barriers by Incumbent Firms**

Firms in the telco industry in Singapore such as SingTel and Starhub and M1, spend millions creating a brand name. Having a strong brand works to build customer recognition. Consumers are far more likely to choose a brand that they recognize over other unfamiliar brand. The strong brand name also help build brand loyalty. Hence establishing a strong brand name can be a barrier, as a new entrant will have difficulties competing with an established brand.

**4. Interdependence**

From the preamble, “The existing operators would look at how best to respond”. Hence there is interdependence in the telco market. Such unique feature is only present in the Oligopoly market structure. The small number of firms ensures interdependence, where each firm is aware that its future prospects depend not only on its own policies (pricing or otherwise), but also those of its rivals, thus creating uncertainty in such markets.

When a firm wants to change its price or output, it will consider the other firms’ possible reactions before actually proceeding with the change. It has to make certain assumptions about its rivals’ possible response in order to make a decision. For example if a firm wants to lower its price, it may suspect that rival firm will follow suit and hence may choose not to lower its price! This can be seen in the kinked demand curve where firms will match price decreases and not price increases, firms initiating a price cut or raising prices will experience falling total revenue. Thus firms will be reluctant to change current prices, leading to price rigidity.

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**Fig 1**

**Conclusion**

The fact that the preamble explains that with the entry of a new firm “**The existing operators would look at how best to respond, highlights interdependence which is only perculiar to the oligopoly market.**

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|  | **(b)** | **Discuss whether competition is the main reason for falling prices in the telco market.** | **[15]** |

**Synopsis**

There is a need explore various reason that could lead to a fall in prices in the telco market including competition

**Introduction**

In an oligopoly market, firms are price setters and hence prices are determined by firms.

**Body**

**1. Explain why more competition might lead to lower prices.**

Assuming, firms aims to maximise profits, firms will determine its profit maximising output where MC=MR and determines price using the AR which is also the demand curve.

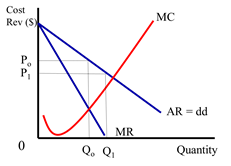
Increase competition 🡪 larger number of firms 🡪 lower demand for each firm and demand will be more price elastic. This leads to lower price and lesser quantity sold. (Draw)

**2. Objective of market dominance due to rise in competition**

In Oligopoly, firms react to changes in the market. With rising competition, the firm may end up with lower market share. In an attempt to increase the firm’s market share such that the firm could dominate the market, decisions could be made with the aim of driving rival firms out of the market.

One way of driving rival firms out of the market is to engage in predatory pricing. Predatory pricing occurs when a firm sells a good or service at a price below cost with the intention of forcing rival firms out of business. This option can be undertaken by the incumbent firm that has sufficient past profits to cope with the losses incurred in the process.

As seen in the figure below, the firm has moved away from the profit maximizing price by charging a lower price to achieve its objective.



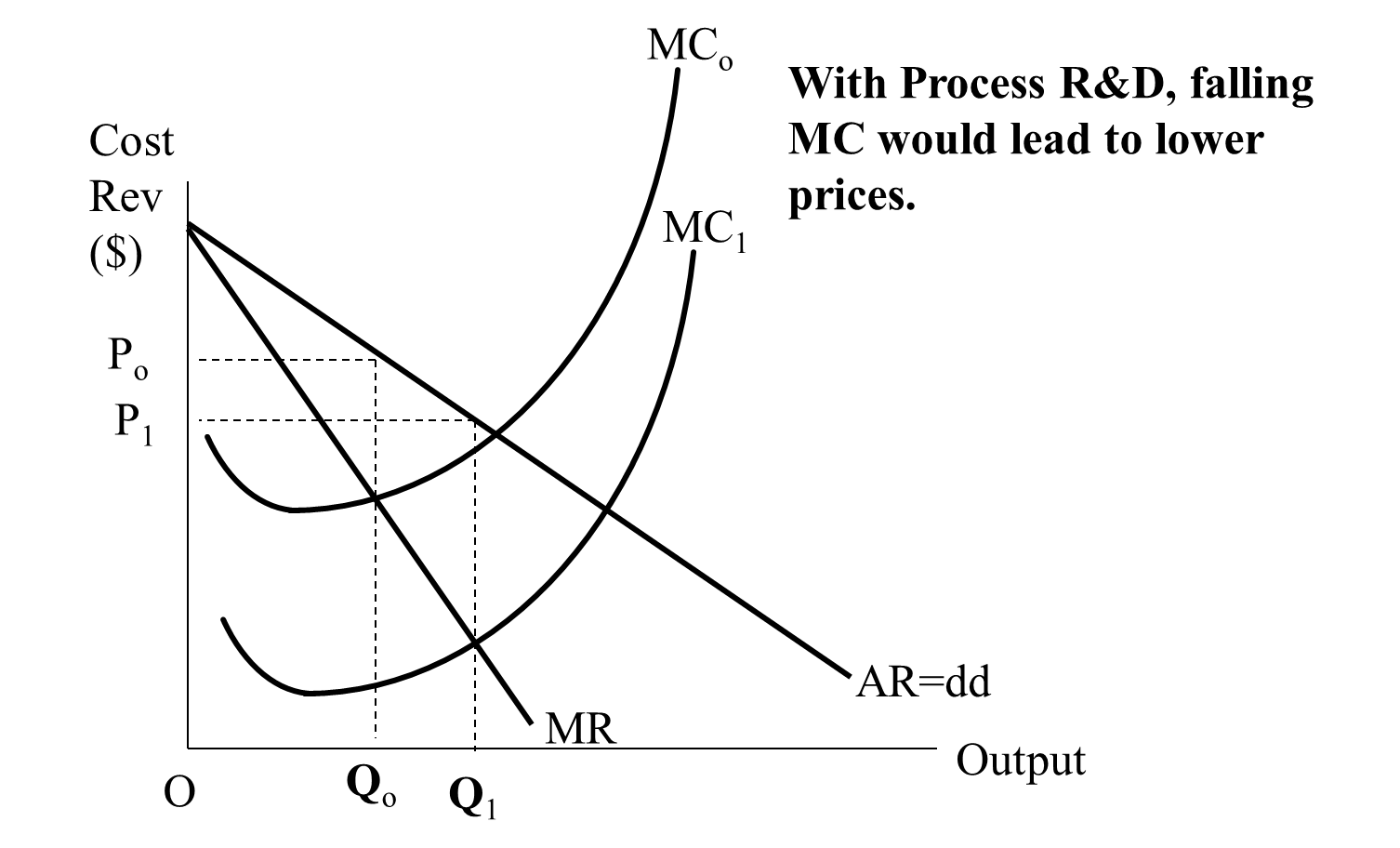
**Fig 2**

Over time, rival firms might not be able to cope with the losses incurred as a result of matching the low prices set by this firm and choose to exit the market. This results in the incumbent firm increasing its market share and corresponding level of market power. Even though Predatory pricing is illegal in several countries, it does occur.

Although lower prices are better for consumers, the increase in monopoly power could lead to higher prices and lesser choices for for consumers in the long term, once competition is eliminated.

**3. Competition can spur firms to process R&D, leading to lower prices**

When faced with competition, firm may engage in process R&D to lower its cost. With falling MC, this could lead to lower prices.



**Fig 3**

**4. Competition and price rigidity in an oligopoly**

Price rigidity in an oligopoly market structure can be supported by the interdependence between firms. Since rival firms only match price decreases and not price increases, firms initiating a price cut or raising prices will experience falling total revenue. Thus firms will be reluctant to change current prices, leading to price rigidity. Hence competition does not lead to lower prices. Firms will choose to use non-price competition instead. Non-price competition consist of product promotion and product development.

Firms are often in fierce competition with other firms offering a similar product or service, and may need to advertise (product promotion) to let customers know their differences (ie physical differences, marketing differences, human capital differences and distribution differences). Product development aims to produce a good that is different from the rivals' products. Firms tend to engage in product innovation to achieve this.

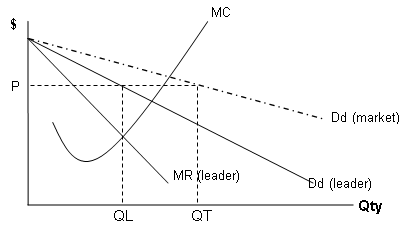
Non-price competition is mostly used in a non-collusive oligopoly which has price rigidity.

**5. Falling prices could be due to collusion in Oligopoly**

Some firms tacitly (by an unspoken agreement) collude by watching each others’ prices to avoid price wars or competitive advertising. Firms may choose to follow the prices set by a firm whom they consider a leader in the market.

The leader could be the largest or dominant firm in the market known as Dominant price leadership or a firm whose prices reflect market conditions in the most satisfactory way, known as Barometric price leadership.

Hence the leader could choose to lower its price perhaps due to falling demand in the market or even falling cost of production. Once the leader lowers its price, other firms would collude.



**Fig 4**

For example the leader may choose a lower price P. In order to maximise profits, the leader will produce where marginal revenue is equal to its marginal cost (QL) and charge a price (P).

At this price the market demand would be at QT. The followers would therefore supply the portion not supplied by the leader i.e. QL – QT at the same price (P). This theory assumes that all firms want to maintain a constant market share and therefore, follow lower price.

**6. Falling prices could be due to improvement in technology**

Production cost may fall over time due to falling cost of factor inputs or even due to improvement in technology. With technological improvements, productivity of firms will rise. This leads to falling marginal cost, as seen in Figure 3. The falling marginal cost will enable firms to charge a lower price.

**Conclusion**

Although prices can fall due to increased competition, there are equally other reasons that could lead to falling prices in an oligopoly market. In fact in the telco market the main cause of falling prices are due to tacit collusion as well as improved technology.

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| **2** | **The companies behind Cathay Cineplexes and Golden Village have entered into an initial agreement for a possible merger that would create the largest cinema operator in Singapore. Data showed there were eight big and small cinema operators in 2020. Meanwhile, on-demand streaming services like Netflix and Disney+ have seen an increase in subscriptions since 2020.**  **Source: Channelnewsasia.com, 11th July 2021** | | |
|  | **(a)** | **Explain why firms like cinema operators choose to merge.** | **[10]** |
|  | **(b)** | **In light of the rise of subscription-based streaming services, discuss if consumers or cinema operators are likely to benefit more from this merger.** | **[15]** |

**Suggested Responses:**

**(a) Explain why firms like cinema operators choose to merge. [10]**

**Introduction:**

* A merger refers to situation when two firms agree to be combined as a single firm.
* The merger of Cathay Cineplexes and Golden Village is a case of a horizontal integration – firms in the same stage of production in the same industry merges to become one.
* The decision to merge could be influenced by the need to pursue cost savings and / or increased market share and hence onwards to greater profitability.
* Note that since the two firms are already large firms earning EOS, the motive for merger should be less of EOS, but more of market consolidation 🡪 they may actually cutr down no of cinema halls and cinemas that are nearby each other to maintain a leaner operation and keep profitability up.
* At the same time, the emergence of streaming services provide intense competition for viewership in the movie industry. Thus merging and being the largest firm allows it to harness resources to compete well.

1. **Merging for the reason of cost (savings) i.e further EOS where possible**
   * Note that the **cinema operators are already large firms with some level of EOS**, which refers to fall in average cost arising from an increased scale of production of a firm (e.g. more seats in the hall, more screens at the same location, etc)
   * The merged firm will be even larger, and amassed the largest market share in the country.
   * Theoretically, increased scale of production from M&A leads to a greater scope for reaping more internal EOS
   * ***[Diagram is encouraged, but analysis could be done without them]***
   * (Give examples of EOS relevant to the cinema screening industry 🡪 technical, administrative, commercial EOS)
2. **Mergers lead to higher revenue earned by the firm:**

* By merging, the expanded company is able to capture a larger share of the cinema-going market as the customer base from both firms are now combined, which leads to higher demand for the firm’s cinemas.
* Demand for the firm’s screenings also becomes more price inelastic as consumers now have fewer substitutes to switch to. As demand increases from DD to DD’ (diagram below), the firm will adjust its output to where MR’=MC. Price and output sold increases to P’ and q’ respectively, leading to higher TR which is price multiplied by quantity sold. Profits therefore increase, assuming the rise in TR is greater than the rise in TC.
* Diagram below:

Price / Revenue / Costs

quantity

0

MC

DD’

DD

MR’

MR

P’

P

q’

q

Fig. 1 – Effect of larger market share on firm’s revenue

1. **Firms merge to gather more resources to better prepare themselves to compete against newer platforms providing streaming services like Netflix**
   * New entertainment platforms like Netflix, Apple TV and Disney+ also shows movies in direct competition with cinema screenings.
   * Disney+ launched the latest movie, Marvel’s “Black Widow’ simultaneously as box offices across the US at a price that is similar, proving that these services are a viable substitute for cinemas in these current times.
   * Cinema operators need to engage in innovative practices to compete against these new platforms.
   * With the merger, as the largest firm, it would have more resources to plan for new services or to obtain exclusive movies for screening to entice cinema goers back to the box office.
   * The large firm may embark on a **market-consolidation exercise** to trim down excesses in no of halls and seats to keep cinemas from being empty.

**Conclusion:**

* Cinema operators merge for reasons associated with profitability and competitiveness.

**(b) In light of the rise of subscription-based streaming services, discuss if consumers or cinema operators are likely to benefit more from this merger. [15]**

**Introduction**

Mergers of firms such as that between cinema operators have the potential to benefit the consumers. In most cases, however, the firm would aim to protect their interest first and foremost, and that their main motivation for the decision to merge would thus be to maximize their profits. This is especially in the context of rising competition from subscriptions-based services like Netflix, Disney+ and Apple TV. They are seen as a threat by cinema operators to take away viewership from cinemas. This essay thus will touch on the extent that the merger would benefit the consumer and cinema operators in light of new competitors in the market.

1. **Benefits of merger to consumers**
   * As mentioned in part (a), consumers may gain if the cost savings from large scale production is passed to consumers in the form of lower prices.
   * As the largest firm in the market, the merged firm would have substantial EOS to engage in predatory pricing to keep new cinema operators, including streaming services, out of the market. This benefits consumers.

**Evaluation:**

* However, consumers may not enjoy lower prices if producers are not willing to pass the cost savings to consumers.
* Producers also are not obliged to lower prices if it results in them not maximizing their profits, which is the main motivation of firms merging in the first place. This is especially so if the cost of acquiring new movies escalate to a large extent.
* Hence lowering of prices may not happen.

1. **Benefits of merger to cinema operators**
   * For example, they may be able to procure retail services and merchandise that are tied to the characters in the movies currently being shown, at a cheaper rate owing to their large scale sales or wholesale licenses. This also raises their profit levels.
   * With a large floor area, their rental cost would also be lower per unit than other shops in the mall. As an anchor tenant, the mall owners could offer them special rental rates that are lower than other retail outlets.
   * With this lowered cost, they **may be able to engage in new ways of attracting more consumers** to their movie theatres. E.g better sound systems, 3D or 4D movies that consumers would not be able to experience elsewhere.
   * As the largest oligopolist, it is expected that they take the lead in pricing and innovation, while others follow. For e.g, Golden Village started providing movie goers with restaurant-style dining options in the movie hall before others followed.
   * These could not have been done effectively and profitably if they were competing with other similar-sized firms in an oligopolistic market structure.

**Evaluation:**

* + Although there are substantial EOS, the marginal gain in EOS from the merger may not be that significant. For optimum cost, they may even have to scale back or close some cinemas in that case.
  + For every innovation, firms should expect some level of failure, and this would be something that the merged firm have to be prepared for.

1. **Benefits of merger to cinema operators and consumers (in light of new competition)**
   * In light of new competition from subscriber-based streaming services, the merged firm is poised to take up a set of strategies that may help them establish a strong foothold in the market, especially with the increased amount of resources that they have acquired.
   * This is especially so if the firm has the perception that the new streaming services are a viable competitor for viewership.
   * For example, they would be able to acquire licenses to brand new movies and blockbuster premieres that smaller theatres and streaming services have no access to until later. **This would enable them to have a competitive advantage over the streaming services**, which are unlikely to secure new releases at the immediate juncture.
   * This would be one way that cinema operators can distinguish themselves from streaming services, which have begun to attract more subscribers.
   * At the same time the price inelastic demand for blockbuster movies and new releases also mean that **cinema operators can set higher prices for these movies and yet gain more revenues.**
   * On the other hand, while consumers may be willing to pay more for new releases, they would also benefit from this competition as the new movies would improve variety and satisfaction levels.
   * **Evaluation and weighing of benefits**
   * The extent of benefits to consumer in terms of price seems to be reduced in the context of new releases, but the presence of these large cinema halls in the malls often provide a good opportunity for consumers to spend a good day out with family or friends.
   * The extent that cinema operator could gain from new releases depends on the decision made by the movie owners on how they would like to launch their movies. Disney, being the owner of the Marvel Movie franchise made the decision to launch the latest movie “Black Widow” simultaneously on Disney+ and at the cinemas in US. This has led to reduced earnings by cinema operators.
   * Cinema operators should carry out a study on how closely substitutable their service is as compared to the streaming services. The merged firm has the means to do this. Their strategies to differentiate themselves from streaming services may add on costs to their business, but if it could pull more cinema patrons into their halls, then the additional revenue collected should lead them to capture more profits.
2. **Conclusion**
   * In conclusion, there is an overall benefit that both consumers and cinema operators can gain with the larger merged firm, especially when cinema operators see the streaming services as a threat to their profitability.
   * Cinema operators would benefit more if they are able to provide consumers with an improved product, something that is different and distinguishable from streaming services.
   * Consumers would benefit more if cinema operators innovate and provide newer cinematic experiences for patrons.

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| **1** | **Faced with a drastic drop in revenue due to the Covid-19 safe distancing measures, some food and beverage (F&B) owners have succumbed to the challenges. In an attempt to stay afloat, eateries have employed strategies such as food delivery as well as reducing staff.** |
| **a. Explain why some firms shut down due to the pandemic while other firms remain in the market with subnormal profits.[10]** | |
|  | |
|  |  |
| **1** | **Faced with a drastic drop in revenue due to the Covid-19 safe distancing measures, some food and beverage (F&B) owners have succumbed to the challenges. In an attempt to stay afloat, eateries have employed strategies such as food delivery as well as reducing staff.** |
| **b.Discuss the strategies that firms may use to remain in business amidst the challenges brought about by Covid-19. [15]** | |

**Essay 1 for discussion**

**(b) Discuss the extent to which the type of market structures that the firms operate in determine their ability to maintain profit margin in the midst of a recession. [15]**