**J1 End of Year Revision – Essays**

**Question 1**

**Explain how firms will compete in markets with high degree of competition and in markets with low degree of competition. (15)**

**Introduction**

***In the imperfect market condition, firms will compete differently based on the different types of market structure and this will be affected by the pricing condition and how the firms behave in these types of market.***

***Main body***

1. **Explain the main differences of the different types of market structure based on the features of the firms in the MC, oligopoly and monopoly**

* imperfect market condition on price and cost of production, immobility of resources
* differs in terms of no of firms, nature of product, degree of barriers to entry
* the slope of MR and AR, the capacity lower cost (EOS)

1. **Link the market with low degree of competition to the firms in monopolistic and oligopolistic market and explain how they will compete**

For monopoly – prevent the market become contestable – barriers to entry

for oligopoly – collusive – reduce market unpredictability – increase market power – raise price – increase profit – how they collude

For non-collusive – price rigidity – no advantage to increase or decrease price – will not resort to price competition – adopt non-price competition (product differentiation / product recognition)

* may adopt mergers and acquisition – why?
* increase market share – reduce market competition – cut down cost in advertising as they can reduce the need to compete
* increase output to reap more EOS – lower AC – enable to increase profit or lower price to further raise competitiveness
* reduce risk and extend market diversification

1. **Link the market with low degree of competition in monopolistic competitive market and explain how they will compete**

price competition in the SR – why? capture new market demand / no knowledge of competitors / product recognition and customer loyalty

non-price competition in the LR – why? promote customer base – product differentiation, promotion – create their small degree of market power – raise price

1. **Analysis – key determinant in determining the nature of competition**

**no of firms which determine the degree of competition – this will shape how the firms will compete as they determine the way the firms have to react with competition and market share**

**Conclusion**

**Question 2 (DHS – Promo)**

**The major airlines in the United States (U.S.) appear to have an agreement not to undercut each other on pricing along certain routes, however on other routes, the same airlines may lower prices to force competition. The U.S. airline industry has seen sustained profitability since 2010. To succeed, and even gain a competitive edge, carriers should strive to be more customer-centric so that passengers receive more tailored service before, during and after each flight.**

(a) Explain why prices may be relatively stable, yet competitive, in markets such as one in which big airlines operates. (10)

(b) Discuss whether product development in the form of a customer-centric experience is the best strategy for airlines seeking to increase their profits. (15)

**Question 3**

**Singapore’s telecommunications (telco) market is dominated by four firms – SingTel (32%), Starhub (25%), M1(22) and new entrants MyRepublics (15%). Commentators argue that Singapore’s telco market might be considered to be an oligopoly.**

a) Explain why Singapore’s telco market might be considered to be an oligopoly and how economic theory suggests this market structure would affect the firm’s pricing and output’s decision. (10)

b) Discuss how government intervention in Singapore’s telco market could protect consumers and consider the extent to which such intervention will be successful. (15)