

Monopolistic Competition Essay Questions (IB)

IB ECONOMICS - 1.5 THEORY OF THE FIRM AND MARKET
STRUCTURES (HL ONLY)

Practice Question

Draw the diagram of a firm making normal profits under monopolistic competition. When will the firm be able to make abnormal profits and why will they usually make normal profits? *[10 marks]*

Past Paper Question

Using a diagram, explain why firms in monopolistic competition are neither allocative nor productively efficient. *[10 marks]*

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Answers **may** include:

- Definitions of monopolistic competition, allocative efficiency and productive efficiency
- Diagram of monopolistic competition
- An explanation of monopolistic competition showing that it cannot be productively efficient because it does not produce where or allocatively efficient because it does not produce where $MC=ATC$ or $MC=AR$
- Examples to support the explanation given.

Past Paper Question

Examine the view that the market for food is more beneficial to consumers if dominated by a monopoly retailer (supermarket) rather than by a large number of small shops operating under monopolistic competition. *[15 marks]*

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Answers **may** include:

- Definitions of monopoly, monopolistic competition
- An explanation of theory of the firm related to retail markets, how both monopoly and monopolistic competition have their advantages and disadvantages in terms of costs, price and output
- Diagram to show the possible impact on consumers under monopoly and monopolistic competition in terms of price
- Examples of relevant market structures
- Synthesis and evaluation (examine).

Command term

“Examine” requires candidates to consider an argument or concept in a way that uncovers the assumptions and interrelationships of the issue.

Factors considered **may** include: the effects on efficiency and customer service, welfare effects, price and output, and economies of scale.