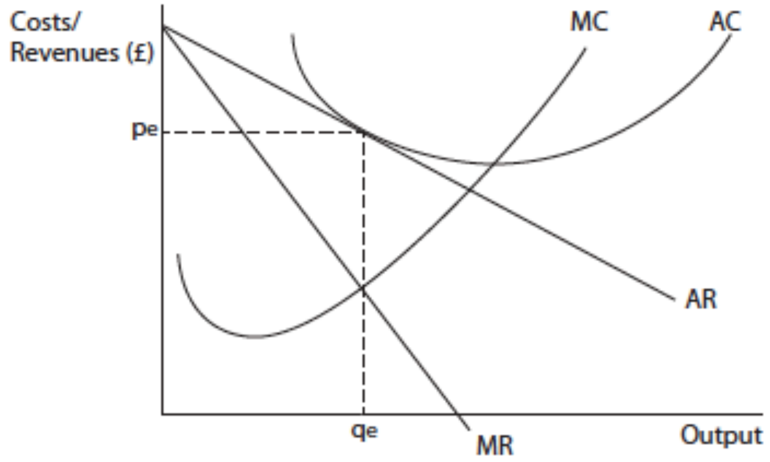
Qurious Education

Monopolistic Competition MC Questions

GCE A-LEVEL ECONOMICS

6 A small profit maximising café faces the following cost and revenue curves. It is noted that the café is never full.



Which one of the following is most likely to apply to this café?

(1)

A It is productively inefficient in the long run

B It is making supernormal profits

C There is evidence of collusion

D It operates in a perfectly competitive market

E It is allocatively efficient in the long run

Answer

Explanation

(3)

Question Number	Answer	Mark
6	A Definition of productive efficiency, e.g. lowest point on the average cost (AC) curve, or MC=AC (1); MC=MR is profit maximisation (1); Explanation: firm is operating under **monopolistic competition** (1) in the long run (1); other characteristic of monopolistic competition (note this must be consistent with the model, and not be a defining characteristic of monopoly) e.g. similar but differentiated products, a large number of small firms, low barriers to entry or exit (1); There are only normal profits in the long run diagram shown, or AR=AC means there are no supernormal profits (1) prices cannot fall any lower because costs are not as productively efficient as possible (1); Annotation of diagram, e.g. to show productive efficiency at the lowest point of AC (1); Example of knock out mark: it cannot be B because the firm is making normal profits (1) (if this has not been awarded as part of the analysis). Example of knock out mark: not D because the AR and MR are downward sloping (1).	(4)

3 Which of the following characteristics is shared by a monopolist and a firm operating under conditions of monopolistic competition?

(1)

A Low or no barriers to entry to the industry

B Productive efficiency in the long run

C Some degree of price setting power

D Supernormal profits in the long run

E Allocative efficiency in the long run

Answer ☐

Explanation

(3)

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Question Number	Answer	Mark
3	**C**	**(4)**

Definition/identification mark: price setting power, e.g. downward sloping demand curve, or average revenue downward sloping, or AR slopes downwards, firms can raise or lower price and still sell its product, or shared supernormal profits in the short run (1)

Characteristic of monopolist as a single seller, one firm dominates, high barriers to entry, firm=market (1)

Characteristic of monopolistic competition, e.g. as a market with many sellers, slightly differentiated products, (1)

Application mark (1) e.g. examples of a monopolistically competitive firm, such as fast food outlets

Further development marks can be awarded for: discussion that the price elasticity of demand is lower for monopoly, or less price elastic.

Diagram or diagrams can earn up to 2 marks. Downward sloping AR (1) and difference between the models (1) illustrated below:

for monopoly (which is equivalent to the diagram for monopolistic competition in the short run):

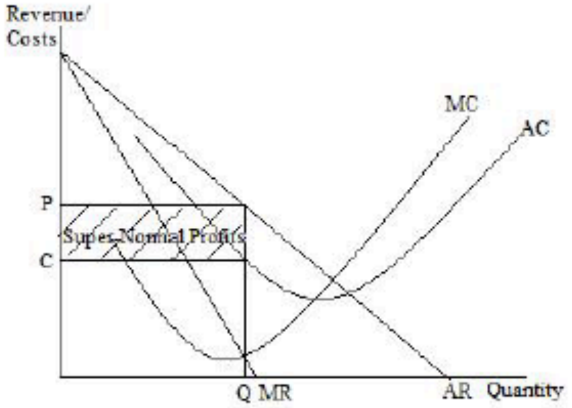
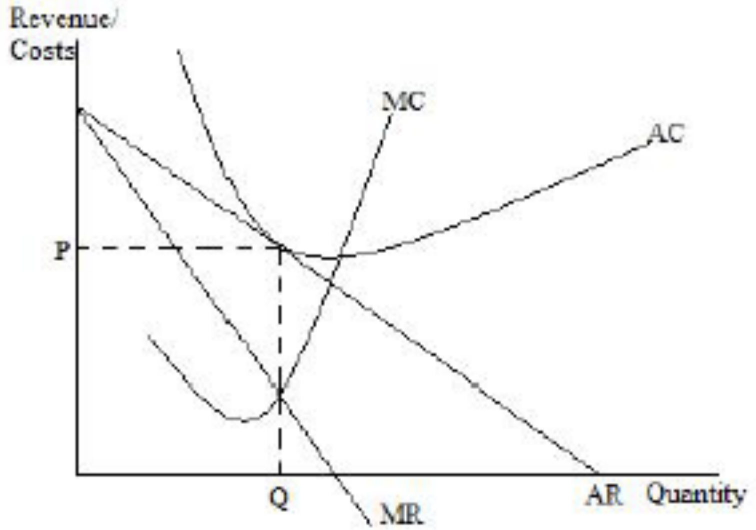


Diagram for Monopolistic competition in the long run. Note the AC is a tangent with AR:



Example of elimination mark: Knock out of A because monopoly has high entry barriers
Not D as only monopoly can make supernormal profit in the long run

6 A firm selling snack food at a music festival is operating in market conditions of monopolistic competition. It is likely to be

(1)

A allocatively efficient in the short run and productively efficient in the long run

B allocatively efficient in the long run and productively efficient in the long run

C both allocatively and productively efficient in the long run

D neither allocatively nor productively efficient in the long run

E both allocatively and productively efficient in the short run

Answer

Explanation

(3)

Question Number	Answer	Mark
6	**D** Definition/characteristic of monopolistic competition, e.g. slightly differentiated products. (1) Explanation of ***lack of*** both types in efficiency (not just definitions) e.g. ' the firm is not operating at lowest cost per unit' and 'the firm is not operating to maximise welfare'. Accept formulae demonstrating AR ≠ MC and AC ≠ MC(1 + 1) Application to snack food, e.g. very similar food types (1) low ability to create strong market allegiances (1) Diagram showing long run equilibrium positions (1) with reference on diagram to P=MC and/or Min AC not being achieved (1). Also credit short run diagram where this illustrates changes (2 marks)	**(4)**

7 A firm in long run equilibrium under monopolistic competition will be

(1)

A allocatively but not productively efficient

B productively but not allocatively efficient

C productively and allocatively inefficient

D making supernormal profits

E allocatively and productively efficient.

Answer

Explanation

(3)

Question Number	Answer	Mark
7	**C** Definition of monopolistic competition or at least one characteristic e.g. firms have differentiated products and therefore the demand is not perfectly elastic has low barriers to entry, many firms **(1 mark)** Explanation of lack of productive efficiency **(1 mark)** Explanation of lack of allocative efficiency **(1 mark)** Supernormal profits will be competed away in long run OR only normal profits in the long run **(1 mark)** Diagram to illustrate long run position showing allocative and productive inefficiency can rewarded up to **(2 marks)**	**(4)**