

Monopoly Essay Question (IB)

IB ECONOMICS – 1.5 THEORY OF THE FIRM AND MARKET
STRUCTURE (HL ONLY)

Past Paper Questions

Discuss the view that governments should always try to prevent a monopoly occurring in a market. [15 marks]

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Answers **may** include:

- Definition of a monopoly
- Diagrams to show a monopoly
- An explanation of the advantages of monopoly (natural monopoly, R&D) and disadvantages (loss of economic efficiency, higher prices, lower quantities)
- Examples of examples of government intervention, such as anti-monopoly legislation, regulation of natural monopoly (e.g. EU Antitrust/competition laws, fines)
- Synthesis or evaluation (discuss).

Discussion **may** include:

A consideration of why governments should or should not try to prevent a monopoly.

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Discuss the effectiveness of government policies (legislation and regulation) to reduce monopoly power. [15 marks]

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Answers **may** include:

- definitions of monopoly power and legislation (anti-monopoly, anti-collusion, merger prevention *etc.*) and regulation (lower prices and larger quantities for consumers, fair prices for natural monopolies)
- theory of how a monopolist's control of price or output might be reduced by legislation or regulation in the interests of the consumer
- diagram to show a comparison of monopoly and perfect competition; diagram to illustrate price regulation showing monopoly charging a price which is equal to average cost
- examples of legislation, regulation, and also other solutions such as nationalization, privatization and trade liberalization
- synthesis and evaluation (discuss).

Discussions **may** include: effectiveness of policies against the sources of monopoly power, *eg* reduction of legal barriers to entry, control of anti-competitive behaviour. Where natural monopoly occurs, restrictive policies might not be in the consumer's interest. Government policies might be rendered less effective by globalization. Government policies might move a market from monopoly towards a market structure which gives rise to allocative efficiency.

Past Paper Questions

Discuss the consequences of a perfectly competitive industry becoming a monopoly. [15 marks]

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Answers **may** include:

- Definitions of monopoly and perfect competition
- Diagrams to compare monopoly with perfect competition
- An explanation of how price, output, welfare, costs and efficiency would be affected when a perfectly competitive industry becomes a monopoly
- Examples of instances to which this might be, or has been, applied (e.g. traditional markets replaced by supermarket chains)
- Synthesis or evaluation (discuss).

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses. For example, candidates may point to advantages of monopoly such as economies of scale, research and development, *etc.*

Discussion **may** include: the advantages and disadvantages of a market becoming a monopoly with an overall assessment.