

Oligopoly Essay Questions (IB)

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

Past Paper Questions

Draw the diagram of a non-collusive Oligopoly. Explain the reason why firms will want to keep their prices stable (price rigidity). [10 marks]

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Answers may include:

- 🎬 definition of oligopoly, price stability
- 🎬 diagram to show the kinked demand curve. Candidates might utilize a collusive oligopoly diagram
- 🎬 theory to explain why price tends to be stable under conditions of non-collusive/collusive oligopoly
- 🎬 example of where this has happened or might happen.

Past Paper Questions

Explain why firms might wish to collude *[10 marks]*

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Answers may include:

- 🎬 definitions of collusion, oligopoly
- 🎬 diagram to show the benefits of collusion in terms of monopoly profits
- 🎬 an explanation of the reasons why firms might collude such as: to increase profits, limit competition, limit uncertainties about the behaviour of rivals and how they might collude: formal collusion (forming a cartel), informal collusion (price leadership)
- 🎬 examples of collusion.

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Answers may include:

- 🎬 definition of monopoly power, oligopoly or oligopolistic market
- 🎬 diagram to show equilibrium under conditions of oligopoly, either collusive or non-collusive
- 🎬 theory to explain higher prices, lower output, and productive and allocative inefficiency due to monopoly power. An explanation of the actions a government might engage in to control such power such as competition policy, price control, regulation, nationalization and trade liberalization
- 🎬 example of industries that might illustrate such characteristics and of policies a government may have employed (e.g. HK property market)
- 🎬 synthesis or evaluation.

Evaluation may include: consideration of the merits of intervention such as difficulties of identifying where such power may be excessive and whether intervention is justified over free markets, etc. Examples may be given of industries where despite economic inefficiency the consumer benefits from inherent economies of scale and therefore there is no need for government intervention. (e.g. railroad companies)