Zig Zag Education

Economics A Level | Edexcel B | 9EB0

A Level Edexcel Economics B Paper 3: Resource Pack

Prep Material and Case Studies

2026: Competition

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Contents

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Teacher's Introduction

Accessing the digital resource
This resource is accessible online via **eRevision.uk**, ZigZag's digital learning platform. Once set up, students can log in from home and you can set tasks and reading for homework. We recommend you read the 'Teacher guide' and 'Quick set up guide' found on your eRevision account.

If you have not already done so, please provide us with an email address to set up eRevision access. You can do this by emailing customerservices@zigzageducation.co.uk with your name, school, email address and invoice number.

Remember!
Always check the exam board website for new information, including changes to the specification and sample assessment material.

This resource has been produced to support the research required for the pre-release paper for the A Level Edexcel Economics B Paper 3 (The economic environment and business) exam, which students will sit during summer 2026.

The context for the 2026 exam is Competition.

This resource includes the following:

- **Topic notes** – The notes offer an overview / background reading to support the five research bullet points specified by Pearson. During their GCE course, students will have already learnt much of the key theory; however, this section links the theoretical points with the specific industrial context for the 2026 exam.
- **Activities** – Included within the notes, and interactively on eRevision, are gap-fill paragraphs, label the diagram, crosswords (paper) and match-up (eRevision) designed to reinforce learning and understanding. These tasks could be used as homework or classwork activities. The words used in the crosswords and match-ups are provided in a glossary at the end of the resource.
- **Case studies** – There are seven case studies included in the resource, which include extended-response questions. Answers are provided for all questions. These case studies put all of the topics considered into context, and support students to use real-life examples in their work and think analytically.

Due to the nature of the research task, this resource aims to merely stimulate discussion and support students' wider research. The resource has been written independently without any sight of the actual exam materials that will be released in the summer of 2026. The resource should be used in conjunction with a course companion or textbook and is intended to put many of the theoretical points into the context of the pre-release research task.

The author has consulted a range of third-party studies / statistics to produce this resource. The figures and data are presented in good faith and the author accepts no liability for data that is inaccurate, misleading, etc.

January 2026

This resource is intended to supplement your teaching only.

As with all pre-release material it is the teacher's responsibility to decide in what way to assist their students. It is the teacher's responsibility to decide how this resource in particular can be used to fit into that assistance. You may simply wish to read this material to better inform yourself and to help you prepare your lessons and give you ideas for your teaching. You may also consider whether it is appropriate to distribute some of the material for reference and to use some of the tasks for classwork and homework. You may also consider making the whole resource available to be worked through by your students more independently.

The content of this resource is provided as one experienced teacher's interpretation of the A Level **Edexcel Economics B pre-release material**. The author does not have any special knowledge of what to expect on any particular exam.

1. How firms and economies c

How firms compete

Competition between firms can be divided into two main categories:

- Price-based competition
- Non-price competition

The type of competition that firms engage in is heavily influenced by the type of m
In perfectly competitive markets, firms will only engage in price-based competitio
imperfectly competitive, monopolistic and oligopolistic, firms will use a combinati
competition. In a market which is a pure monopoly, there will be an absence of ar

Price-based competition

This is where firms use the price of their goods and services in order to attract customers and increase market share. The effectiveness of this approach to competition depends on a number of factors including the type of market in which they are competing, the type of products they are selling, and the price elasticity of demand of their customers.

Price competition in different types of market

In a perfectly competitive market, firms are price-takers. This is because
they have no market power. Each firm is so small relative to the market that they
This means that the price they charge is determined by market forces. Customers
type of market, meaning that they will know which firm has the cheapest prices. T
price, all other firms in the market must also lower their prices, otherwise, custom
which is charging the lower price. This means that firms have no incentive to unde
firms have no incentive to raise their prices either. All goods and services are hom
competitive market, so there is no way to justify charging prices above the m
would lose all of its customers to a rival.

In an imperfectly competitive market, firms will have some price-making power. T
been able to use techniques such as branding to create the perception that their p
those of their competitors. This means that they could choose to raise their price
practice, they may not do this, because low barriers to entry into the market may
attract new firms to enter the market, attracted by the economic profits that incu

In an oligopoly, firms will often follow a price leader, leading to long periods of pri
oligopoly are interdependent, so if one firm lowers their prices, their competitors
to a price war, where firms lower their prices aggressively to win market share fro
cutting often fails to lead to customer loyalty – once prices return to normal levels
to their usual store, or they will go to another firm that is still cheaper.

In a monopoly, firms face little or no competition, and they have substantial price
above the market price because customers have little, if any, alternative – if they
pay the price that the monopolist charges. Some monopolists are able to take adv
strategy of price discrimination. Firms are able to segment the market into groups
price elasticities of demand. As a result, these different groups of customers can b
according to what they are willing and able to pay. Those customers who can affo
more, allowing bigger profit margins.

Types of pricing strategy

Firms can use a number of different pricing strategies. These include:

- **Cost plus pricing**
  This is when a firm sets a price by adding a desired profit margin to the cost o
  the firm to recover the cost of making goods or services, and allows the firm
  sale, but this can make competitiveness more challenging. Cost plus pricing d
  prices charged by competitors, and can be inflexible when PESTLE factors cha
  strategy can be slow to react. On the other hand, this might help firms compe
  pricing is easy to justify to customers as this method might be helpful in ma
  for long-term contracts with a high degree of uncertainty.

- **Price skimming**
  When a new product, such as a new technology is first released, some custo
  higher price to be the first to own it. Firms are able to exploit this by initially
  product in order to make extra profits from high demand from early adopters
  customers who are less price sensitive is satisfied, the price is then lowered t
  purchase the product. This is particularly useful for first movers, allowing the
  before other firms enter the market, but allowing the flexibility to cut prices
  more intense.

- **Penetration pricing**
  This is used by firms that are launching a new product. They will initially set a
  launch their product, encouraging customers to try their product, and gainin
  product is established in the market, the firm will then increase the price to i
  can be effective as a means of encouraging customers to trial a new and unfa
  useful as a way to gain market share from incumbents but it is not a good wa
  term. Once the initial trial price is raised, many customers may simply go bac
  product. It is also risky, because if the low initial price is charged for too long,
  accustomed to it and thus become reluctant to pay more for the product.

- **Predatory pricing**
  This is a strategy that tends to be used in oligopolistic markets. Larger firms m
  weaker firms from the market in order to gain greater market share. They do
  average costs of their rivals. By doing so, they aim to force their rivals to sell t
  this, over a sustained period of time, the aim is to force their rivals to exit the
  the firm using this strategy has to accept lower profits, or a small loss over tim
  afford to do this, and the prospect of higher profits after they gain greater ma
  worthwhile. This strategy is illegal in the UK, but due to the existence of asym
  markets, firms are able to use it. It is difficult for regulators to prove that firm

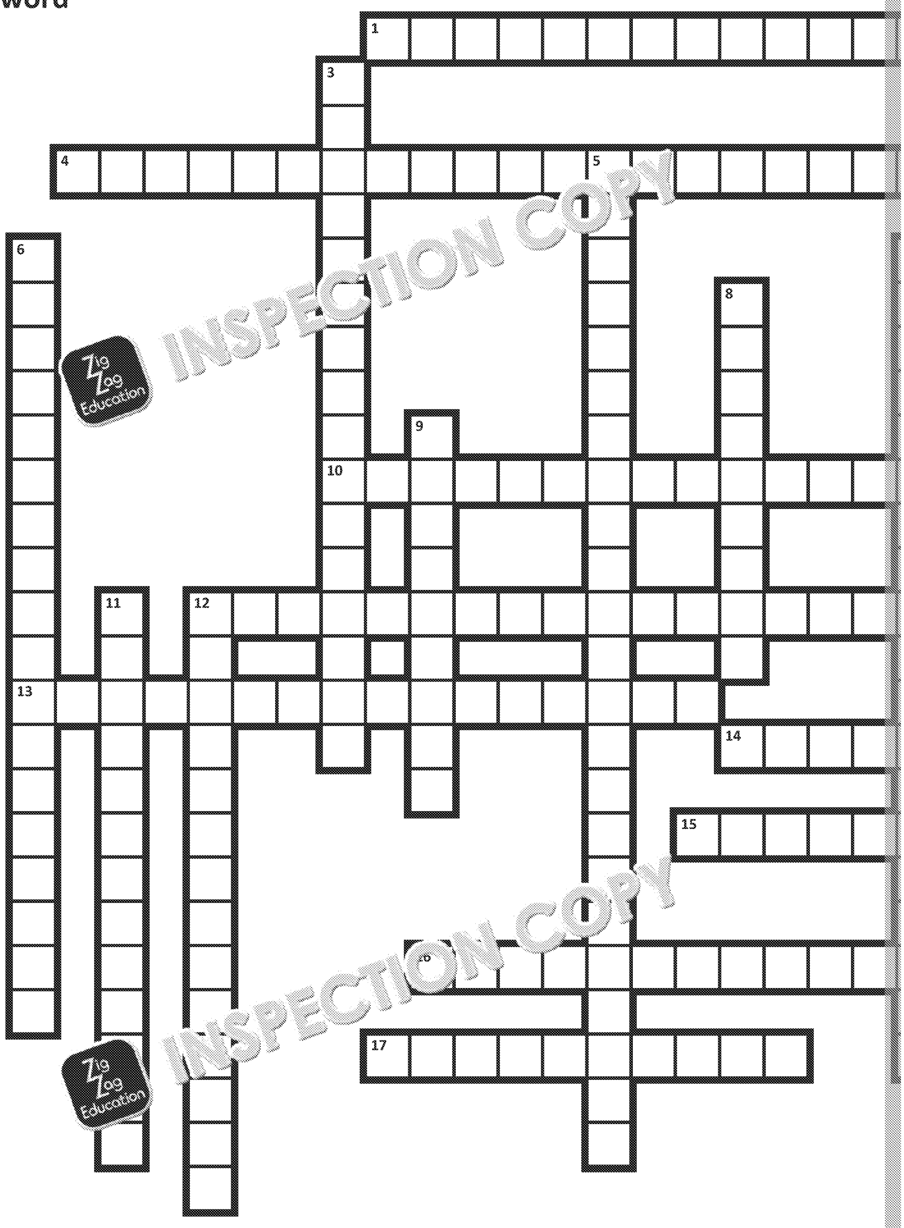
- **Competitive pricing**
  This is where a firm sets a price at the 'going rate' for the market. Firms will e
  level as their rivals, or just below in order to attract customers. This can help
  attracting price-sensitive customers, increasing sales volume. This should hel
  This will be boosted if the firm has used this strategy alongside non-price me
  If customers perceive the product to be better value than a rival item that
  likely to switch. Another significant benefit to competition provided by this st
  offers. Firms using this strategy will be able to react to changes in competitor
  maintain their attractiveness to customers. On the other hand, this strateg
  firms reacting against one another when they make price cuts. This method
  value. By focusing on being cheap, a low price may affect how much consum
  be worth.

- **Psychological pricing**
  This is where a firm will use psychological techniques to influence consumer
  product. This might mean using price point perception – setting a price just b
  example £9.99 rather than £10, makes it feel cheaper. Another technique is c
  different versions of a product, having a large item for £50 and a medium opt
  perceive the medium option as being significantly cheaper. This method can
  attracting price-sensitive customers. By making them perceive a product as b
  likely to make a purchase. This can also aid with differentiation. By setting a
  to customers, it is possible to shape the image of a premium product. On the
  pricing can make customers unhappy. Many customers understand how the
  see them applied this can make them feel manipulated and thus unhappy. Se
  also shape perceptions of a product. If a price point feels cheaper, customers
  lower v

- **Price discrimination**
  This is when firms are able to identify different market segments, each of wh
  demand. By charging each segment the price that they can bear, firms are ab
  surplus as additional supernormal profits. This is beneficial to some consume
  goods at lower prices, reflecting their greater price sensitivity. Other custom
  prices, reflecting their more inelastic demand. This is a challenging strategy f
  information about the different market segments that they can target and th
  This strategy works most effectively where products cannot be transferred t

Activities: Price-based competition

Crossword



Across

1 When a firm sets a price based on what its competitors charge, rather than its own c

4 Where low barriers to entry mean that firms are unlikely to exploit price-making pow

10 When a low price is set initially to attract customers, and then increased later. (11,7)

12 When a firm puts a cheap sale price alongside a lower special offer price to influence

13 When customers are relatively responsive to changes in price. (5,11)

14 A market which is dominated by a single large firm. (8)

15 Where firms use price and non-price factors to gain market share from rivals. (11)

16 Where firms use pricing strategies and tactics in order to gain market share from riva

17 When raw materials are transformed into finished goods which can be sold for a pric production. (5,5)

Down

2 Where a price is set based on the costs of producing a product and a desired profit m

3 Where firms deliberately set a price below average costs in order to eliminate compe

5 The responsiveness of demand to changes in price. (5,10,2,6)

6 When a large number of price-taking firms sell homogenous products. (7,11)

7 Where firms use techniques such as advertising and branding in order to gain market

8 A firm which is dominated by a small number of interdependent firms which are pro

9 Where firms deliberately manipulate customers' perception of prices to make a prod

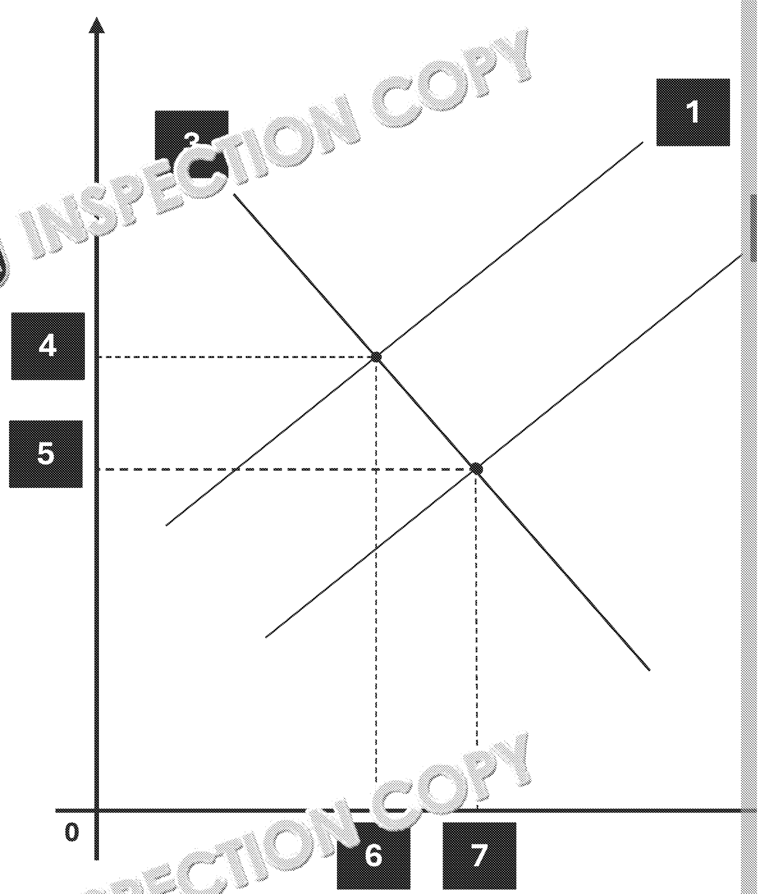
11 Where a high price is set initially when a product is launched and then reduced. (5,8)

12 A high-quality product that commands a high price relative to other goods. (7,7)

Diagram

Label the supply and demand diagram showing more firms entering the market.

Q_1	S_1	Q_2	D	P_1	



Gap fill

Fill in the gaps with the words below.

price	*penetration*	*psychological*	*predat*
imperfectly	*competitors*	*takers*	*skim*

Firms compete in different ways depending on the type of market in which they o
competitive market, firms are price- ___(1)___ and engage primarily in ___(2)_
because all goods are ___(3)___ and customers have perfect information, meanin
the market price will lose ___(4)___. In contrast, firms in ___(5)___ or ___(6)___
making power due to branding or product differentiation, allowing them to charg
One common strategy for new products is ___(7)___ pric[illegible], where a high initial p
adopters before lowering the price. Alternatively, [illegible] use ___(8)___ pricin
initial price to gain market share. Larger [illegible] oligopolistic markets may engage
smaller rivals out of the market. [illegible] firms can also use ___(10)___ pricing to i
for example by setting [illegible] £9.99 instead of £10.

Case Study A: Christmas Dinner Pric

In 2025, the main British supermarkets engaged in what is now a tradition – a price war, focused on the main ingredients in a traditional Christmas dinner. In recent years, the big retailers have used the price of essentials such as carrots, parsnips and Brussel sprouts to attract customers into their stores. In 2023, Aldi charged 19p a bag for these essentials and only [illegible]p for a 1kg bag of potatoes. In 2025, they [illegible] their prices even further, reducing each of these to 5p per bag. This was after they had initially [illegible]sed a price of 8p per bag, but Lidl responded by pricing their Christmas essentials at 5p a bag. Aldi matched this price.

Arguably, the best value Christmas dinner in 2025 was offered by Lidl, who sold a wh
would be possible for their customers to feed a family of eight for only £11.85. But di
Despite the aggressive discounting from the smaller stores, the biggest supermarkets
Sainsbury's and Tesco sold their Christmas essentials for 15p a bag. At Tesco, this di
to customers who were members of their Clubcard loyalty scheme.

Figure 1: UK supermarket Q3 performance 2025

Retailer	Like-for-like performance
Tesco	+3.1%
Aldi	+4.8%
Morrisons	+3%
Asda	-2.8%

Like-for-like figures show the percentage change compared to the same period of tim
a very important performance indicator for retail managers. Quarter 3 is known as th
spending on [illegible]ood and non-food items reaches its highest level in the year.

Figure 2: UK supermarket market share[1]

	2020	2025
Tesco	27%	28%
Aldi	10.7%	11.1%
Lidl	7.1%	8.1%

Extended-response questions

1. Discuss the usefulness of market share as a measure of competitiveness for r
   such as Aldi.
2. Assess the impact of price wars on retailers such as Aldi.

[1] *Data adapted from the The Grocer 2023, The Grocer 2025, Savills*

Non-price competition

This is where firms use factors other than price to distinguish their products from

The type of non-price competition and its importance varies based on the type of m competing, the type of product they are selling, the needs of consumers and other

Non-price competition in different market structures

Under perfect competition, products are homogenous and customers have perfe price is the only factor that determines their choices. Any advertising carried tell customers basic facts such as when and where they can buy products. Any att differentiate products would likely be a waste of money – due to the existence of would know the products are homogenous regardless of any adverts or other would not change their behaviour or be willing to pay a higher price.

Under oligopoly, firms are interdependent. This means that if any firm lowers its p likely to start a price war. Consequently, firms are likely to invest heavily in non-pr advertising and branding, in order to attract customers and win market share. By and creating the perception of value, they may be able to gain additional revenue their prices.

Imperfect (monopolistic) competition is si unlikely to use their price-making power a prices low. They will use methods such as differentiate their products as a way to att customers perceive differences in their pro of loyalty schemes, it may be possible to a rivals and gain market share.

Monopolists also use non-price competition methods. In a monopoly, the lack of c less about winning market share and more about influencing customer behaviour loyalty as this can increase barriers to entry, safeguarding their monopoly power. perception of value as a way to maintain a justification for charging higher prices substitutes. Activities such as branding can be used to signal quality, which also he may engage in innovation, using research and development to keep products fres have the potential benefit of increasing barriers to entry if new features or techno

Forms of non-price competition

- **Advertising**

  Firms can pay for messages to be shared with the public through a range of c television, cinema, radio, social media, outdoor advertising such as billboards media such as newspapers.

  Advertising can be expensive, particularly for television and cinema advertisi the costs of producing the advert, as well as the cost of having it broadcast, a increasingly used to create videos that can be broadcast as an advert, reduci adverts can generate large amounts of publicity for firms. The annual John Le talking point for people and generates news coverage each year. This can cre awareness and draw customers to visit stores. Advertising can be persuasive advertising shares details with customers such as how much a product costs, it can be bought. Persuasive advertising uses methods such as emotional app they should buy a specific product.

  Good advertising will help a firm become more competitive by building awar creating specific perceptions in the mind of consumers – convincing them th useful than those offered by rivals.

- **Customer service**
  This is the range of activities provided to help customers when they make a p
  purchase. This might include having staff who are trained on how to use proc
  which product will best meet their needs, or it might involve after-sales servi
  information and advice – such as a phone line or webchat service where cust
  problems, or it could involve warranties and after-sales service.

  This can make firms more competitive by adding value for customers. They m
  money or make larger purchases if they are helped and advised or made to fe
  purchase. Having the security of knowing that concerns will be addressed aft
  might make them more willing to spend larger sums of money.

- **Innovation**
  There are two forms of innovation: product innovation and process innovatio
  implementation of ideas resulting in the production of new products; proces
  better ways of producing and selling goods and services. A business which in
  be differentiated from competitors, and if its innovation quality, it might be
  to develop a significant competitive advantage. Innovative products might be
  and it's possible that this approach may open up whole new markets. To som
  innovation may be determined by whether it is market oriented or product o
  innovations might meet existing, known customer needs, although it's likely t
  trying to do this. On the other hand, product-oriented innovations might be r
  of having potential to create whole new markets to compete in.

- **Loyalty schemes**
  Loyalty schemes reward customers for returning to a business. This can range from very simple stamp cards, such as those offered at independent coffee shops when a customer buys a drink, all the way through to sophisticated systems such as the Tesco Clubcard or Boots Advantage Card where the business rewards customers for purchases with points which can be used to buy products at a later date. These more sophisticated schemes collect large amounts of data on customer habits which can be analysed and used to make tailored special offers to customers based on their specific preferences.

  These schemes can make a significant difference to the competitiveness of a firm. Not only are customers more likely to come back to take advantage of their loyalty points and other incentives such as discounts, they are also likely to spend more money in order to gain more points.
  A good loyalty scheme will differentiate a firm from its competitors, giving cu
  over rivals. The data that more sophisticated loyalty schemes gather is also h
  trends in demand can be detected and this can be used in a number of ways.
  insights that allow firms to tailor the ranges they offer, both on a company-w
  specific locations.

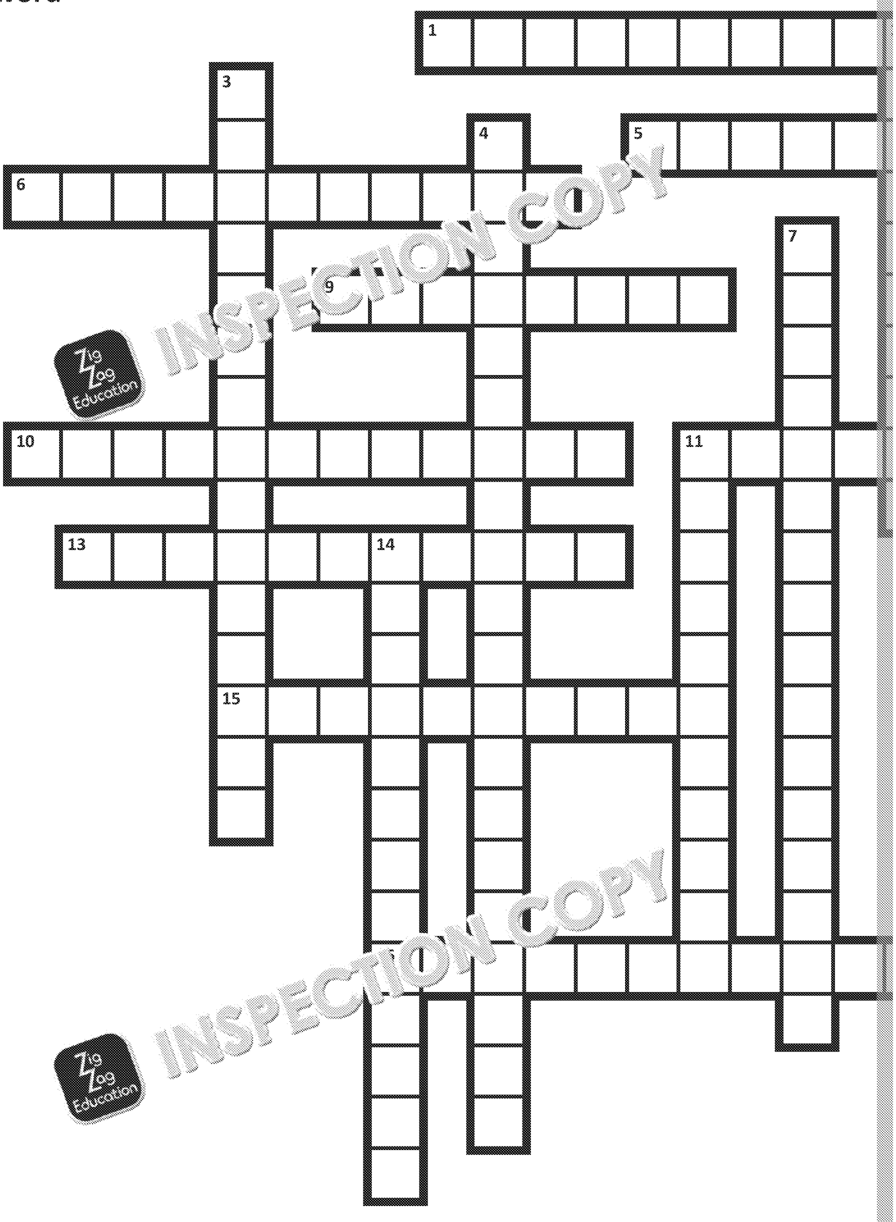
- **Distribution and convenience**
  Finding unique ways to distribute products to customers can make a significa competitiveness. In recent years, firms have discovered that subscription bo different options being offered to customers such as snacks or clothes. Costa range of coffee vending machines, allowing customers to buy its products in and petrol stations, vastly increasing the accessibility of its products and mak customers to access them. This is a business practice with a long history. Pen selling books through vending machines at train stations, a practice that they an ideal way to inspire busy commuters, turning a long boring commute to ma

  By increasing convenience and finding innovative ways to distribute their pro competitiveness in a number of ways. The more convenient it is to make a pu for customers. Being able to make a quick visit to a shop with long opening h may justify paying higher prices or tempt a customer away from a competito hours. By allowing delivery to convenient locations such as the lockers that a shopping centres and outside supermarkets, customers might be more willin

- **Extended services**
  This is where a business offers a range of additional options alongside their c products come with basic warranties and service options that meet the mini offering extended warranties or service options can both increase revenue a a big purchase, increasing the willingness of customers to spend money. Pre can help to justify higher prices and differentiate a product from its competi Apple store can help customers to get the best out of their products, assistin their watch or phone.

Activities: Non-price competition

Crossword



Across

1 Where customers are rewarded for returning to a business over time. (7,7)
5 The people who purchase goods or services. They may not be the ultimate end user.
6 Laws that govern the way that businesses must behave, such as restrictions on what
9 Using means other than price to gain market share and increase revenue.'_____' con
10 How a product is sold to customers through different channels. (12)
11 The end user of a product; the person who will actually use the item that has been b
13 When a firm pays for space in a media channel to communicate with customers. (11)
15 Where firms find new and novel ways to make products or use technology to satisfy
16 Where the behaviour of one firm determines how other firms will behave. (15)

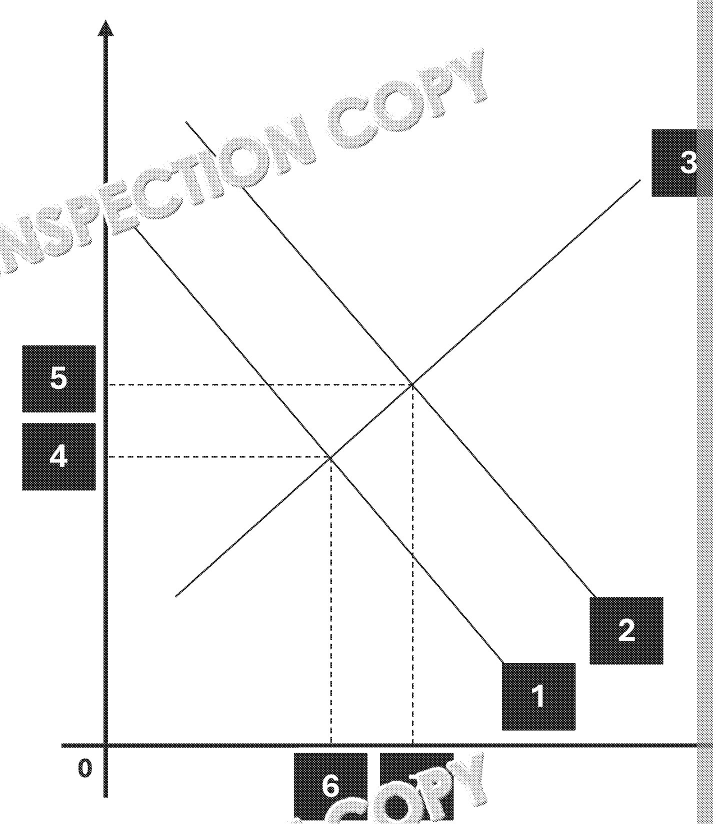
Down

2 Where products are essentially identical and there is no difference in function from t
3 Actions taken by a firm to meet or exceed the needs of its customers. (8,7)
4 The ability of a business to differentiate a product or produce it at a lower cost comp
7 Extra support services offered beyond the core product that a customer purchases. (
8 Things that make one product distinct from those offered by other firms. (15)
11 How well the purchase of a product fits in with the personal and work life of custome
12 Where emotive appeals are used to make a customer feel that they need to buy a pa advertising (10)
14 Where customers are provided with basic details such as when and how to buy a pro

Diagram

Label the supply and demand diagram, showing increased spending on advertisin

S	D_1	P_2	D_2	Q_1	



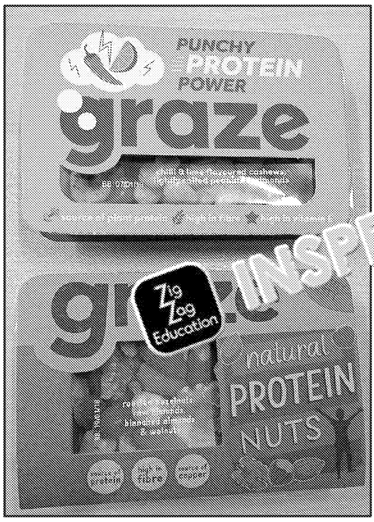
Gap fill

Fill in the g[illegible]h the words below.

imperfectly competitive	*extended*	*advertising*
innovation	*loyalty schemes*	*non-price*

Firms can compete not only through price but also through ___**(1)**___ competitio products without changing their cost. In perfectly competitive markets, this form because products are ___**(2)**___ and customers have perfect information, meanin has little effect. In contrast, firms in ___**(3)**___ or ___**(4)**___ markets rely heavily customers and protect market share. Methods of non-price competition include awareness and influence customer perceptions, and ___**(6)**___, which rewards re also invest in ___**(7)**___, creating new products or improving processes, and offer to increase perceived value. By innovating and differentiating their products, firm advantage even if they are not the cheapest in the market.

Case Study B: Graze



Graze was initially launched in the UK in 2008. Th
at the time, an innovative model of distributing its
snacks in a box that was shaped specifically to fit
customers to subscribe to a range of snacks that
This was popular with office workers who apprecia
healthy snacks each week.

This unique distribution channel cut out retailers, s
Customers signed up for subscriptions through th
business to collect a large amount of data. Custom
boxes and to highlight snacks that they liked that t
they did not want to try. The customer data was an
– an algorithm called DARWIN (Decision Algorithm
which selected which items to include in each box
of customers.

The business focused on healthy eating, offering items such as seeds, nuts and dried
on items that were natural and better for their health. With over 100 items in their cat
delighted with surprise items that they had never considered buying previously.

After building a well-known and popular brand through its online subscription service
selling packs of snacks through physical retail stores such as Boots and Sainsbury's
launched their range in American retail stores. By this point, a number of competitors
similar products through retailers. The company ended its online subscription service
selling packaged snacks through retailers. This decision was made after Graze was a
owner of the business chose to focus on the more profitable segment of the market.

Extended-response questions

1. Discuss the impact of technology on the competitiveness of Graze.
2. Assess the impact of innovation on the competitiveness of Graze.

How economies compete

The competitiveness of national economies can be considered in terms of a range
The performance of the domestic economy can influence international competitiv
Key measures of performance such as inflation, exchange rates and unemployme
important to consider structural issues. How innovative is the economy? Does the
infrastructure? Is there sufficient human capital to meet the needs of employers?
companies? Is the regulatory environment compatible with successful business ac

Countries will compete by:

- **Ensuring a climate of innovation**
  Countries which are more innovative might use the research and developme
  by private companies to launch innovative products or to increase productivi
  innovation is the number of patent applications filed each year. According to
  Organization's 2022 report, Asia currently leads the world in terms of patent
  of global applications to 67.5% in 2021, followed by America with 18.5% of a
  2011), with Europe lagging far behind, having seen patent applications fall fr
  in 2011 to 10.5% in 2021.[2] National economies that are more innovative wil
  are likely to sell the most desirable products. It is also likely that there will be
  innovation, leading to firms that are more productive, meaning that the cost
  in those countries is likely to be lower.

- **Infrastructure**
  A key part of a country's ability to compete economically is infrastructure. Th
  as energy and water to businesses and communities is vital. It is also importa
  networks domestically, allowing for factor mobility and for the movement of
  need for infrastructure for international shipping and logistics. Ports and airp
  transportation of raw materials and finished goods.

  As online business activity becomes more important, internet connection becomes an increasingly important piece of infrastructure. Firms will not only engage in e-commerce activity; activities such as HR and finance are among non-core activities that are increasingly carried out offshore by business process outsourcing firms. Thus, a reliable high-speed internet connection is increasingly a vital part of infrastructure.

- **Human capital**
  This refers to the collected knowledge and skills of the population. The level o
  determines the type of industries it can build. Higher levels of human capital
  high-tech industries such as pharmaceutical research, AI development or nan
  high levels of skill come high salary expectations. On the other hand, a busine
  volumes of simple manufactured goods on a production line may look for a c
  human capital, where workers can be cheaply employed in large numbers fo
  Countries with a strong education and training system will be able to produce
  for the different industries it needs to support. A country with a shortage of s
  on wages making it less competitive.

---

2 *https://www.wipo.int/edocs/pubdocs/en/wipo-pub-941-2022-en-world-intellectual-property-in*

- **Trade policy**
  Trade policy relates to the rules, laws and political activities that a country us disincentivise trade. Countries can choose to create or remove barriers to tra countries had increasingly opened their economies to trade, removing tariffs cases, this led to the loss of domestic industries due to competition from low often accepted because the jobs that were lost tended to be lower skilled an primary and secondary industries. Many developed countries were happy to value-added industries, often in the tertiary sector. More recently, the secon Donald Trump has led to a resurgence in protectionist economic policies, usi from overseas much more expensive relative to domestic goods. This has ma compete, particularly for manufacturers, and has also led to an increase in 're-sh moved manufacturing back to the USA.

  Similarly, the UK has opted to leave the EU, ending its longstanding trade rela allowed it to negotiate new trade deals with other countries. The end of tari for many British firms; for example, cheese manufacturers have found that a exports alongside the impact of tariffs has made their products uncompetitiv Europe. It can be argued that the UK's exit from the EU has had very limited positive impacts being things like sovereignty through no longer having to fol

  Theoretically, Brexit allows the UK additional opportunities to make trade de EU. Thus far, the UK has made deals with several countries but these have no level of trade compared to being a member of the EU. In some cases, removi products such as food from countries such as Australia has severely undermi industries such as agriculture. Immigration policy is now entirely within the c This has led to a huge increase in inward migration from Africa and Asia, incr such as hospitality and healthcare. Theoretically, this may have led these indu One of the main drawbacks of Brexit is a lack of influence over EU law relatin

- **The legal and regulatory environment**
  The laws and regulations that govern business activity can have a dramatic ef Businesses faced with stricter rules will have higher costs and may not be abl changes in the market. A market that has lower regulatory pressure for firms foreign investors, attracting firms that want to set up offices or factories, but Many industries are becoming increasingly footloose. This is particularly true services to companies that provide internet services or AI-powered processes (BPO) firms that provide content moderation or data annotation simply need and office space. The cost of moving to a new location is relatively low. Conse in a race to the bottom, trying to offer lower and lower legal barriers for firm main issue with this is that another country will always be willing and able to limiting the sustainability of this approach.

International competitiveness

International competitiveness refers to the ability of a country to produce goods a
successfully in global markets, while also maintaining or improving the living stand
A competitive economy will be able to sell its products abroad, attract investment
economic conditions. Competitiveness is not determined by a single factor, but i
conditions, structural characteristics, and macroeconomic stability.

Governments, firms, and international organisations attempt to measure and imp
of its close relationship with long-term economic growth, employment, and living
competitiveness is a relative concept: a country is only competitive in comparison
changes in global conditions or competitor performance can have a significant im

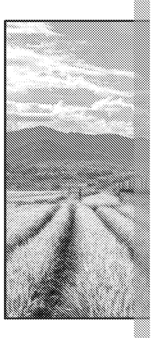
International competitiveness can be improved by focusing on cost and non-cost f

Cost-based factors

- **Wages**
  How much workers are paid – the higher these are, the less competitive a co
  labour-intensive industries.

- **Energy costs**
  Energy is a large cost for manufacturing, particularly for some heavy industri
  higher energy costs are, the more expensive the finished product will be, ma

- **Transport**
  When a country has a reliable transport system, these costs may be lower. In developing countries, there may be fewer effective transport links making both the cost and time taken to transport goods higher, reducing competitiveness.



- **Raw materials**
  Some countries will have a comparative advantage in the production of certain types of raw materials, allowing them to
  produce resources at much lower costs. This might make them more compet

Non-cost factors

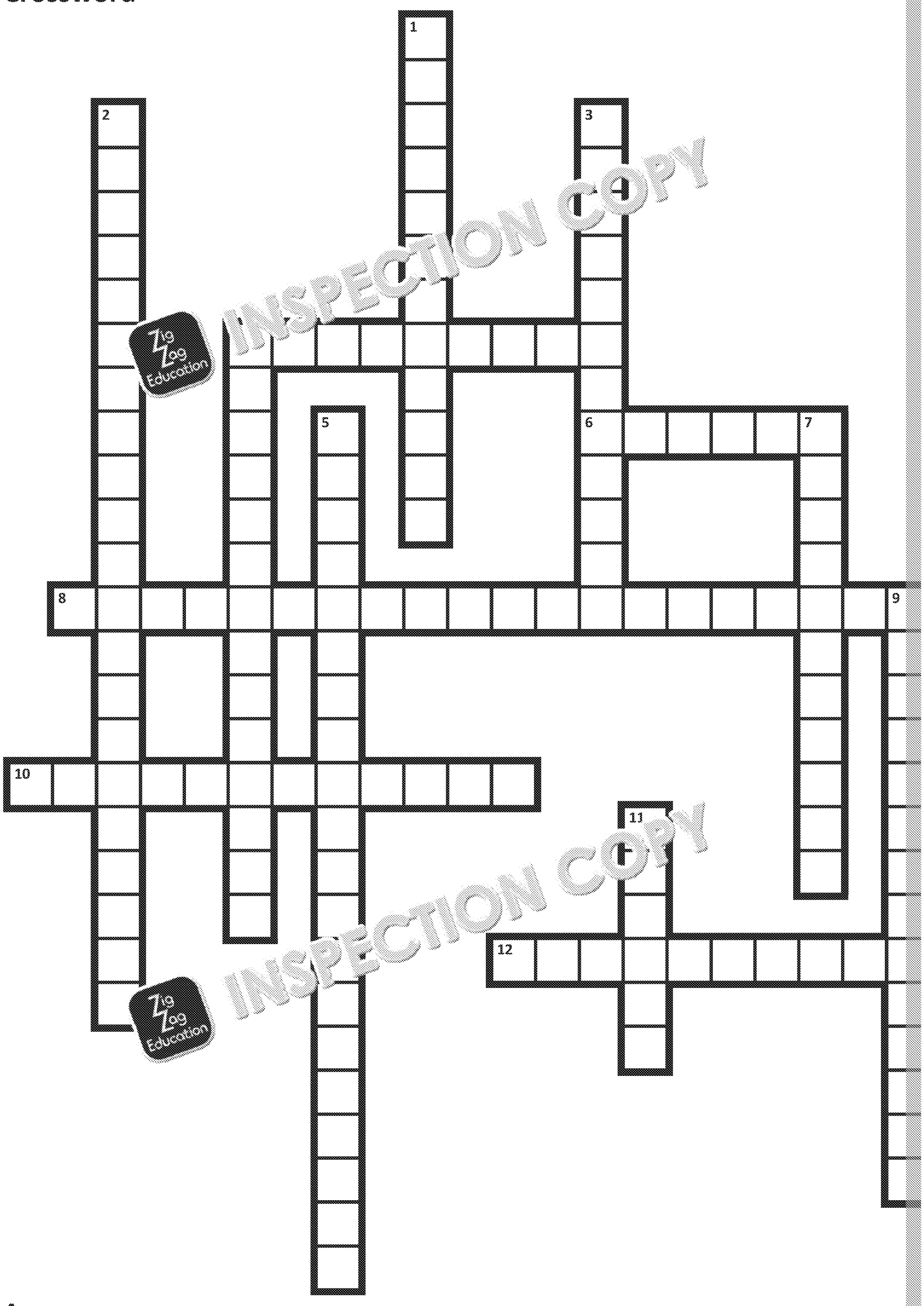
- **Quality**
  Some countries have a particular reputation for making very good products.
  chocolate are renown the world over for being particularly good, and Germa
  in the world, making these countries more competitive in these markets.

- **Innovation**
  Some countries have high levels of investment in research and development
  innovation, both of processes and products. These countries will be able to o
  and are likely to have higher levels of productivity.

- **Technology**
  Do countries have the latest equipment and machines? South Korean factori
  humanoid robots on production lines, dramatically boosting their productivit
  with less investment in cutting-edge manufacturing.

Activities: How economies compete

Crossword



Across

4 A group of countries that remove barriers to trade with one another. (5,4)
6 A legal protection guaranteeing a monopoly on production of an innovation for a
8 The ability of a country to sell goods in international markets. (13,15)
10 The amount of output produced with a given quantity [illegible] uts in a given period
12 When a phenomenon can't be directly observe[illegible] measures can be used to

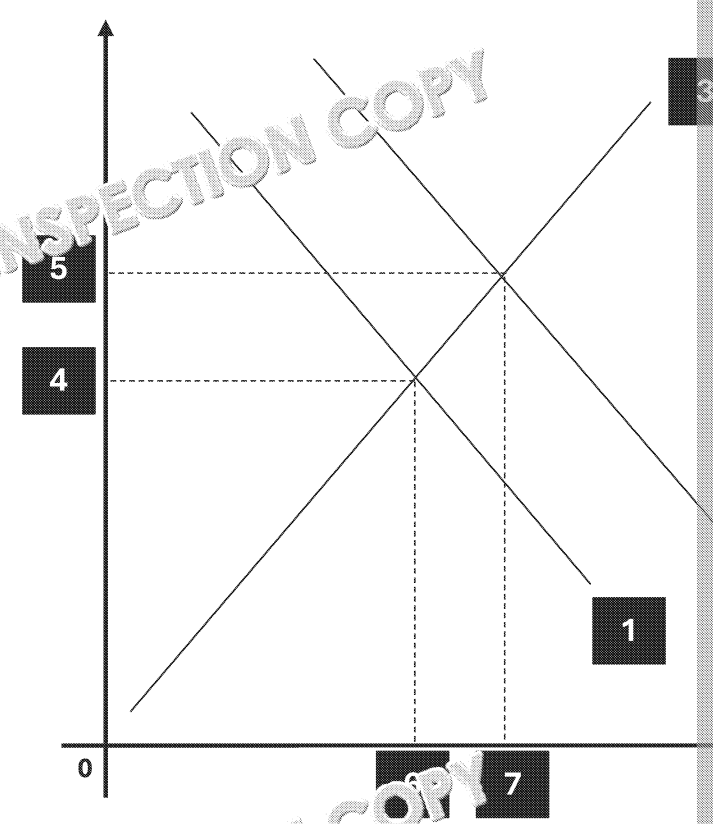
Down

1 The cost of one curre[illegible] of another. (8,4)
2 The syst[illegible] standards that govern the behaviour of firms. (10,11)
3 The co[illegible] knowledge and skills of workers. (5,7)
4 Concern[illegible] with the provision of services. (8,6)
5 When one country can produce a particular product at a lower opportunity cost
7 The political, economic and legal choices made by a government in relation to in
9 The physical and organisational systems on which the economy functions. (14)
11 The withdrawal of the United Kingdom from the European Union. (6)

Diagram

Label the AD/AS diagram showing the impact of a decrease in international comp

AD_2	AS	P_2	AD_1	Y_1	



Gap fill

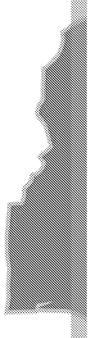
Fill in the gaps with the words below.

inflation	*transport*	*education*	*regu*
R & D	*raw materials*	*cost*	*inno*

The competitiveness of national economies depends on a combination of ___(1)_ economic measures such as ___(3)___, exchange rates and unemployment can in compete internationally. Structural issues are also important. A nation's level of _ whether it can produce innovative products and improve productivity. Effective _ transport and utilities, are vital for moving goods and services efficiently. Similarly ensure that the workforce has the necessary skills to support different industries.

Trade policy also affects competitiveness. Countries can create or remove barriers tariff barriers, which can influence whether domestic firms can compete with fore business-friendly ___(7)___ environment allows firms to adapt quickly to market investment. Cost-based factors such as ___(8)___ and energy costs determine the factors such as product ___(9)___ and investment in ___(10)___ help countries di the global stage. By balancing these factors, nations can improve their internation investment and increase living standards.

Case Study C: Nigeria



Nigeria was once hailed as one of the MINT countries, and held up as an example of countries that were making significant improvements in their economic competitiveness. Despite this, the country has only made modest improvements in its global competitiveness. Government interventions since 2023 seem to have helped to improve this situation.

The government has removed subsidies on petrol and reduced subsidies on electricity. This has caused significant increases in the cost of buying energy. The aim of these reforms was to increase private sector investment in energy infrastructure. In the short term, these improvements have not materialised, but bills for households and businesses have increased. In the long term, the aim of this reform is to incentivise higher levels of energy production, with current output from power stations in Nigeria typically only 35% of it Removing subsidies and allowing firms to charge higher prices should help increase p been a 70% increase in revenue for electricity producers.

Nigeria has also devalued its currency, the naira, making its exports more competitive balance of payments surplus, which hit $4.6bn in the third quarter of 2025.[3] This has levels of exports sales, but has also been a reflection of a renewed flow of foreign dir

Figure 1: Key economic indicators

Indicator	2020	2025
Real GDP growth (annual %)	1.8	3
GDP (nominal)	1145.7	1564
GDP per capita (current US$)	5558	67
Inflation (CPI, annual %)	13.2	1
Unemployment (ILO est)	n/a	3

Source: IMF, Wikip

Another important reform has been the reform of tax laws and business regulations. tax system will come into effect, designed to remove some of bureaucracy and duplic Small companies will be exempted from taxes on profits, while multinational compan tax rate of 15%. Reforms have also been made to regulations. The paperwork require been simplified, with new online platforms designed to make the process easier. But more independent directors to ensure good governance.

Extended-response questions

1. Discuss the impact of a balance of payments surplus on Nigeria's competitive
2. Assess the likely impact on the economic competitiveness of Nigeria of the re in government policy.

3 *https://www.thisdaylive.com/2026/01/17/how-cbn-reforms-are-boosting-nigerias-fx-inflows-ba*

2. The advantages and disadv of competition

Competition can have positive and negative effects on households and firms.

Advantages and disadvantages of competition for hous

Households will benefit in a number of ways:

- **Lower prices**
  Where price competition exists, consumers may benefit from cheaper goods prices in the short term to attract customers. If the market remains competit a relatively low level, with firms only making normal profits, or setting prices make normal profits. This might help households to enjoy a higher standard they buy are cheaper through competition, they may experience a meaningfu power, allowing them to gain greater levels of utility. However, it must be re are low as a result of competition in one or two markets, they may still be hig concentrated markets.

- **Better quality**
  One means of non-price competition is to improve the quality of the goods a consumers. This may mean that over time, people benefit from better-qualit of markets. As firms try to differentiate themselves from rivals, they may imp they provide or use better raw materials in their products. Assuming that the reflect the increase in quality, this will benefit consumers.

- **More choice**
  As more firms enter markets, and incumbent firms offer wider ranges of proc have a greater range of options to choose from. This could mean different fla existing products, or new types of products. This greater choice might more likely to find options that will satisfy their specific needs.

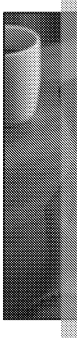
- **Innovation**
  Firms may seek to compete by innovating. This could mean an increase in pro more efficient production or better distribution, reducing costs and potentia that new types of products become available that meet needs that were prev satisfaction for consumers.

Despite these benefits, there are some negative consequences for households:

- **Market rigging**
  Firms may choose to resist the competition in the market. In oligopolies, firm limiting choice and artificially raising prices. Firms can engage in artificial com that appear to compete with other parts of the business. While this appears an illusion of choice for consumers and their actual choice is more limited tha

- **Too much choice**
  While it is good to have a range of options, when too many firms are offering consumers. The 'paradox of choice' tells us that having too many options can anxious, leading to worse choices.

- **Unethical behaviour**
  Businesses that are competing intensely for customers may resort to unethical acts. This might be a company-wide strategy or simply a group of rogue staff who have not been supervised adequately. Businesses could make false claims in adverts, resort to high-pressure sales tactics, or fail to properly test the safety of products before they are launched. A recent trend in this kind of unethical competition is firms leaving fake online reviews for rivals or paying review farms to give their own products false reviews, distorting the information available to consumers and making it harder for them to make rational decisions.



- **Exclusion of vulnerable customers**
  Not all customers will benefit from competition. In some cases, consumers s
  to being unable to shop around for better deals, leading to paying higher pri
  in markets where customers sign up to longer-term deals such as mobile pho
  A significant cause of this is digital exclusion. Not all consumers are able to a
  but in many markets, firms operate a 'digital first' policy, leaving some poten
  participate in the market.

Advantages and disadvantages of competition for firm

Competition can impact firms in a number of ways. For some firms, the competiti
opportunity for success and a chance to make larger profits. Other firms, howeve
share to competitors, to the point that they need to exit the market.

Advantages of competition for firms

- **Boosting efficiency and productivity**
  Competition incentivises firms to reduce costs. This can be to create larger p
  price-based competition to attract customers, or it can be so that more cash
  non-price competition such as advertising or innovation. By focusing on prod
  lower cost of making goods and services. By focusing on gaining producti
  without using additional resources. This will mean a larger quantity of produ
  spending additional money. This should contribute to the achievement of pr

- **Increasing market share**
  By engaging in price and non-price competition, firms may be able to gain extr
  and draw customers away from rivals. This should lead to higher market share
  guaranteed. If other firms compete more effectively, then the opposite may b
  able to gain market share through competing effectively, this can aid in maxim
  in the long term can help the business to gain market power which can be expl

- **Encourages strategic adaptation**
  In response to intense competition, managers must carefully examine the st
  and ensure that they optimise their choices to ensure they can compete effe
  future. Developments such as investing in innovation, training and capacity m
  this decision.

Disadvantages of competition for firms

- **Lost profits**
  Competition is expensive. Reducing prices to compete may gain market shar revenue (depending on whether demand is price elastic or inelastic), advertis promotion are expensive, research and development takes years before it yi guaranteed to succeed. All of the extra costs will reduce profitability. Meanw similar tactics to win away customers. The firm that competes most effective with those that are not successful facing, at best, reduced profits and at wors possibility of having to exit the market.

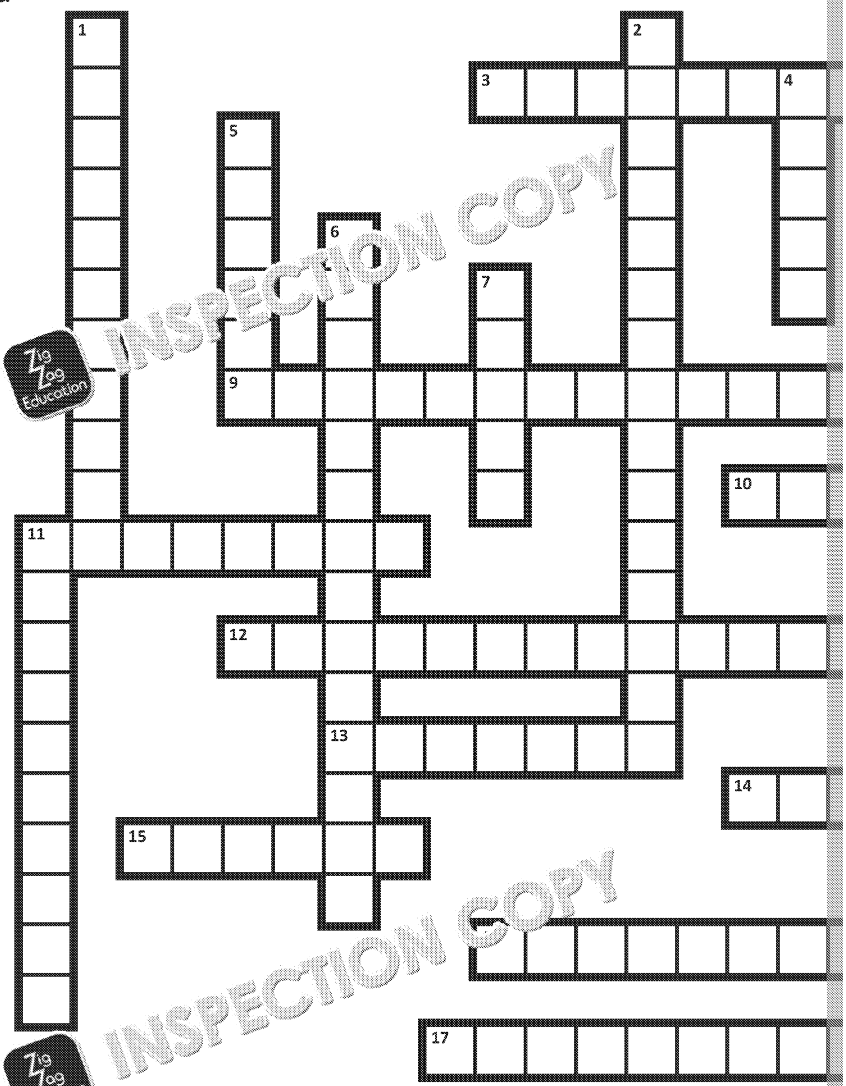
- **Damage to brand image**
  Performing poorly in a competitive market may undermine a brand. This pro for publicly listed companies which must publicly share details of their financ to underperform relative to rivals, this might devalue their brand. It is also po competing might lead to a poor public image. Adverts that inadvertently offe give customers good value might have a negative impact on the reputation o

- **Resource implications**
  The pressure of intense competition might be particularly challenging for sm different functional areas such as human resources and operations might be competition may be particularly high, exhausting financial resources. The pro firm. During periods of intense competition, resources such as media produc adverts may be in demand, leading to higher costs to use these facilities. The stage in the product life cycle firms have reached. Those firms in the growth higher competition than those in the decline stage.

- **Barriers to entry**
  High levels of competition may create a barrier to entry for firms. While this already in the market, other firms and entrepreneurs planning to enter those opportunity to compete. The pressure on prices might mean that it is not a particular market. Customer loyalty, developed through non-price competi for new firms to enter a particular market.

Activities: The advantages and disadvantages of competitio

Crossword



Across

3 A long-term plan of action created to facilitate the achievement of corporate obj

9 The level of wealth and necessities that a population has obtained. (8,2,6)

10 The standard that a business achieves in its products. (7)

11 Intangible products where time, knowledge and skill are used to provide custom

12 The stages that a product goes through, from its launch to its eventual withdraw

13 Price × quantity. (7)

14 Where a group of firms make a formal agreement to collude, maximising their pr consumers. (6)

15 A convenient set of arrangements for trading goods and services. (6)

16 The level of profit where total revenue equals total cost. (6,6)

17 When a firm illegally manipulates markets to maximise profits at the expense of

Down

1 The proportion of total sales in a market that is achieved by a given firm. (6,5)

2 When an excessive number of options available leads to customers making wors

4 Products with a tangible form that can be bought by customers. (5)

5 The core principles guiding the behaviour of a business. (6)

6 The business function focused on employing and developing staff. (5,9)

7 A unique identity created by a business which might include logos and other ele

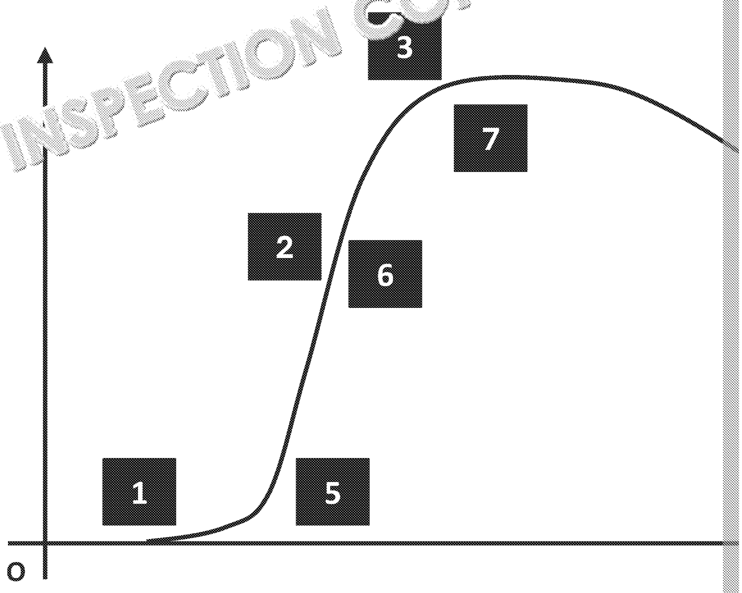
8 When individuals lack the skills and/or resources needed to participate in online

11 A company that is owned and controlled by another company. (10)

Diagram

Label the product life cycle diagram to show changes in competition at each stag

Maturity	Introduction	Limited competition	
Growth	Competition peaks	Falling competition	C



Gap fill

Fill in the gaps with the words below.

lower	*products*	*efficiency*
research	*revenue*	*competitive*

Apple operates in a highly ___(1)___ market, alongside firms such as Samsung, Go consumers, competition can lead to ___(2)___ prices for some products, particula encouraging better ___(3)___ through product design and customer support. App regularly releasing innovative devices such as the iPhone, iPad and Apple Watch. I operating systems and services like Apple Pay and iCloud.

Competition also increases the range of ___(5)___ available to customers, with m accessories. However, intense rivalry can sometimes result in unethical practices l claims in marketing or fake reviews, which can mislead consumers. Apple itself mu avoid damage to its reputation, as mistakes in pricing or product launches can affe For Apple, competition drives ___(6)___, as the company continually adapts its pr strategies. It also creates opportunities for increased ___(7)___ if Apple attracts c into new markets. On the other hand, competition generates high ___(8)___ for a

Case Study D: Dyson

Dyson was founded in the UK in 1991 and operates in a highly competitive market fo
time of its launch, the vacuum cleaner market was dominated by well-established bra
similar bag-based technology. Dyson entered the market with a different approach, d
used cyclonic technology rather than bags, which often lost suction as they filled.

The company invested heavily in research and development, with James Dyson creat
before finalising the first successful design. This innovation allowed Dyson to differe
offering a product that maintained constant suction. In a competitive market where c
this unique technology helped the business to differentiate itself and build a strong re
and reliability.

Figure 1: Estimated market size and market share da

Year	Global Vacuum Market Size (US$ bn)	Dyson Mar
2020	11.5	
2025	50.56	

Dyson initially sold its products through existing retailers, competing directly for shel
Customer feedback and product reviews played an important role in shaping future d
continually refined its products in response to consumer expectations. Dyson kept in
improvements in efficiency, design, and usability.

Over time, Dyson expanded its product range beyond va
household appliances such as hand dryers, fans, hair dr
product entered a crowded market, requiring Dyson to c
technology, design, and branding.

Today, Dyson operates globally and is recognised as a p
demonstrates how participation in a competitive market
product quality, and help a business grow by continually
and rival firms.

Extended-response questions

1. Discuss the impact of patents on the competitiveness of Dyson.
2. Analyse the benefits for Dyson of operating in a highly competitive market.

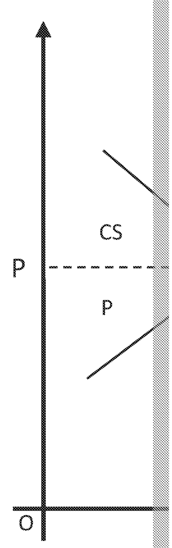
[4] *Sources:*
https://www.globenewswire.com/news-release/2022/09/07/2511585/0/en/Vacuum-Cleaner-M
2028-Global-Vacuum-Cleaner-Shipment-to-Surpass-158-Million-Units-By-2028.html
https://www.fortunebusinessinsights.com/vacuum-cleaner-market-109213
https://www.industryresearch.biz/market-reports/cordless-vacuum-cleaner-market-101531

3. The impact of competition on ind and economies

Having considered the benefits and drawbacks of competition, it is worth reflecti both at a microeconomic level on individual consumers, on firms and at a macroe as a whole.

The impact of competition on individuals

Competition in markets has a number of impacts on individuals. Consumers will gain more choices, enjoy lower prices and will be able to enjoy a range of new innovations as a result of firms in different markets trying to win market share from one another.



Supply an consumer an

When markets experience intense price competition, firms will lower prices towards a level where the price is equal to the marginal cost of production. This will lead to higher levels of allocative efficiency, as firms get closer to providing an optimal quantity of products to the market. This means that consumers will enjoy more utility while also paying a price that is closer to the true value that they receive.

When markets are uncompetitive, firms charge higher prices, above the market equilibrium, restricting supply and appropriating consumer surplus as additional profit. This creates a deadweight loss of welfare to society. As markets become more competitive, and prices get closer to the free market equilibrium, this deadweight loss is reduced.

The impact of competition on firms

In a competitive market, firms will have an increased risk of either becoming bank rivals if they underperform. Arguably, this reduces the impact of the principal age incentive for managers to work harder in the interests of shareholders.

Where firms do fail as a result of competition, the winds of creative destruction w theory behind this is simple. Firms that are less efficient will exit the market, allow previously used to be re-allocated to other firms that might be able to use them f something new and novel. Thus firms have an incentive to be as efficient as possi these forces.

In a competitive market, the replacement effect suggests that firms are constantl remain relevant in the market. Firms in competitive markets must constantly cut c win customers, whereas monopolists have a stronger incentive to protect the pro products and thus are less likely to change or innovate.

The impact of competition on economies

At the macroeconomic level, competition can have a substantial impact on a num

- **GDP**
  The level of competition will affect the size of the economy. When markets a in innovation may serve to boost long-run aggregate demand. Consumers wi leading to an improvement in purchasing power and standards of living. This confidence, thus leading to higher levels of consumption. Firms will invest in research and development. This increase in investment will boost their comp an outward shift in aggregate demand.

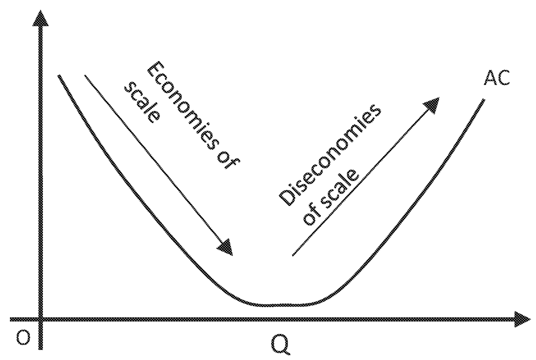
- **Inflation**
  Downward pressure on prices in competitive markets may have a positive im downward pressure on enough products in enough markets, this may aid in r be balanced against the impact of other markets with higher concentration l competition, cancelling out the downward pressure on prices in more compe

- **Unemployment**
  In an economy with many competitive markets there is potential for low leve plenty of firms engaged in non-price competition, using customer service to a possibility that they will need to employ larger numbers of workers. And as n markets in response to the signalling mechanism, these firms will also need t balanced against the short-term frictional unemployment created by the forc As firms compete, some will potentially need to exit markets, closing down a Those workers may experience short-term periods of unemployment while t

Competitive markets and economic efficiency

When markets are more competitive, resource allocation is likely to improve, as fi which boosts productive efficiency, allowing them to either charge lower prices fo profit margins.

AC curve diagram illustrating productive efficiency

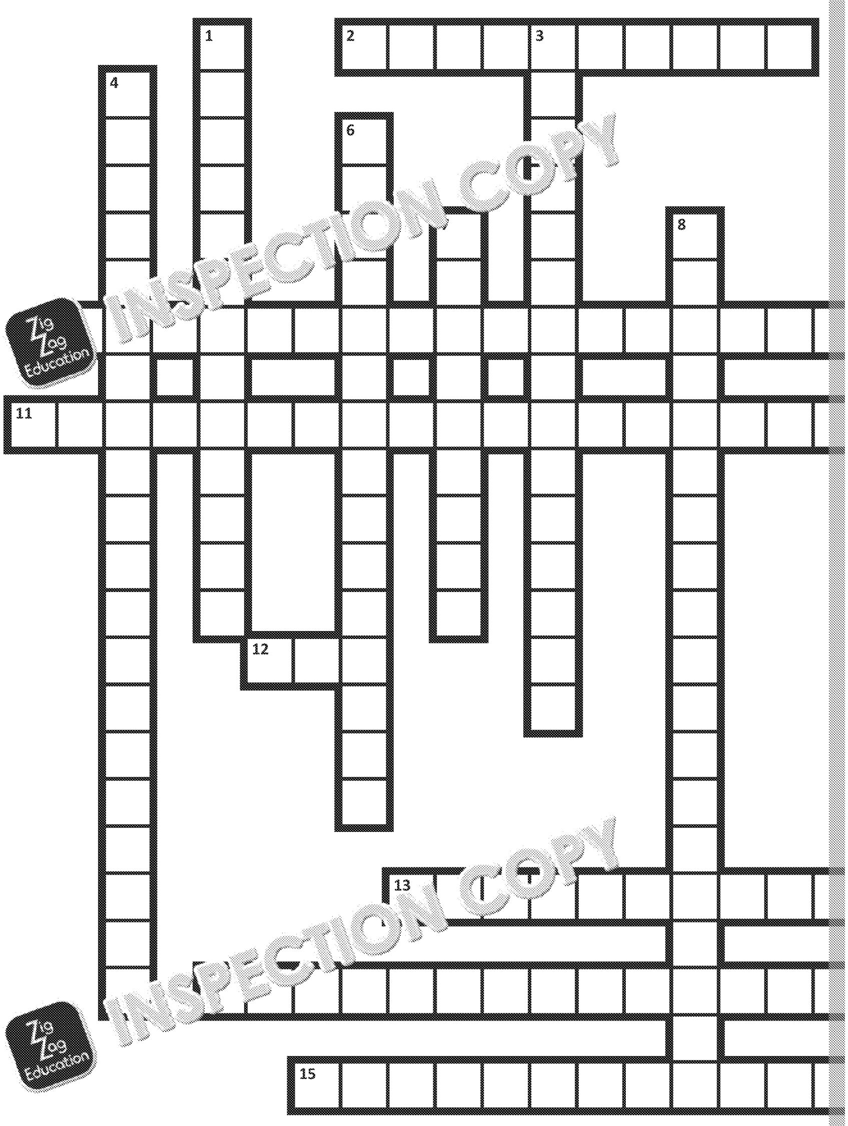


As output increases, avera makes the firm more proc lowest point on the AC cu highest possible level of p shown on the diagram at increase in output will red diminishing returns kick in diseconomies of scale.

Likewise, firms in competitive markets may experience downward pressure on pri where prices are equal to the marginal costs of production, leading to a degree of reducing waste. Firms in these markets will also make some supernormal profits, Investing these profits in research and development will lead to process innovatio efficiency over time.

Activities: The impact of competition on individuals, firms a

Crossword



Across

2 When an action taken by one party to a transaction sends information to anc

10 The difference between payments into and out of an economy over time. (7,

11 Managers may choose to work in their own best interests rather than those c

12 A measure of the size of an economy. (3)

13 The study of a whole economy. (14)

14 The ability of firms to innovate and adapt over time, leading to improvement methods of making them. (7,10)

15 The study of specific markets. (14)

Down

1 The cost of producing one more unit of a good or service. (8,5)

3 The total demand for all goods and services at a given price level in an econo

4 When the price paid by consumers is equal to the marginal cost of producing

5 Where individuals are looking for a job but are unable to find one. (12)

6 The total amount of goods and services that firms are willing to produce at a

7 The rate of change in the price level. (9)

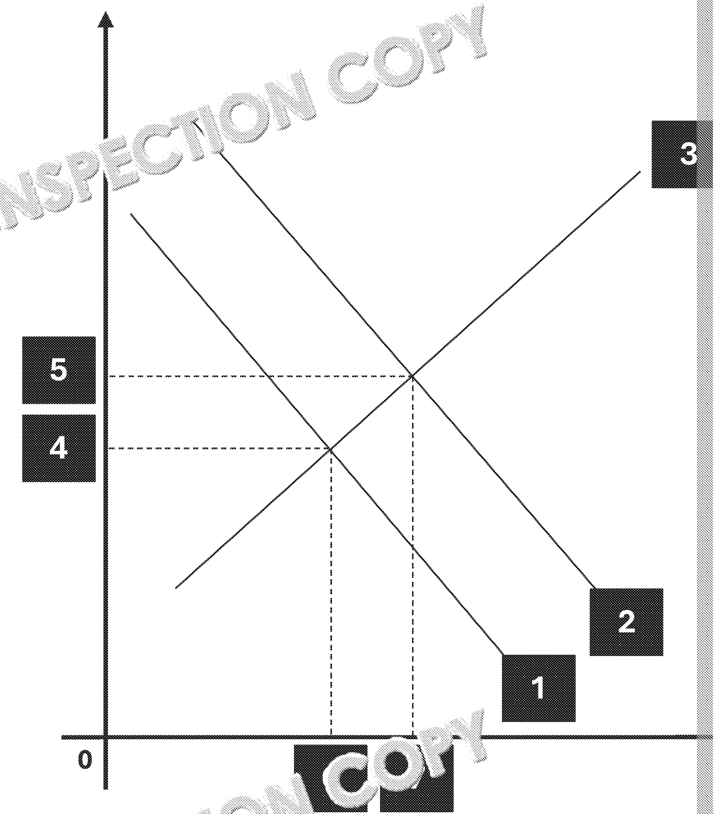
8 The process whereby new innovations constantly replace old ones, leading to old industries. (8,11)

9 A reduction in economic efficiency/welfare when a market is in disequilibriu

Diagram

Label the AD/AS diagram annotated to show the impact on GDP and the price leve
caused by competition.

AD_2	AS	P_2	AD_1	Y_1	



Gap fill

Fill in the gaps with the words below.

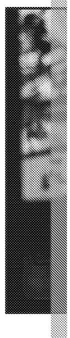
destruction	*unemployment*	*dynamic efficiency*
choice	*competition*	*prices*

Tesla operates in the highly competitive electric vehicle market, facing rivals such
For consumers, competition in this sector leads to lower **___(1)___** for EVs over ti
models and features, and access to technological innovations such as autonomou
batteries. Intense rivalry also encourages firms to improve customer service, char
apps, increasing overall consumer welfare.

For Tesla itself, competition drives a constant need for innovation and efficiency.
research and development, producing new models and upgrading manufacturing
unit, improving **___(3)___**. Competitors that fail to keep up may exit the market, i
creative **___(4)___**. This frees up resources for more efficient firms or new entran
incentivises Tesla to optimise supply chains and reduce production waste.

At the macroeconomic level, competition in the EV industry can contribute to ___
as firms invest in factories and charging networks. Innovation driven by **___(6)___**
time, creating a modest deflationary effect in the automotive sector. However, th
can also generate short-term **___(7)___**, as jobs in underperforming firms or supp
opportunities are created in growing parts of the industry. Overall, competition be
to continually innovate and promotes productive, allocative and **___(8)___**.

Case Study E: Netflix



Netflix was founded in the United States in 1997 and originally operated in the home entertainment market, which was already competitive and dominated by traditional video rental businesses. The company initially offered a DVD-by-mail service, allowing customers to order films online and receive them through the post. This model differentiated Netflix from competitors and appealed to customers who wanted greater convenience and choice.

As competition increased from streaming services and changes in technology, Netflix shifted its business model in 2007 to focus on online streaming. T to reach a wider audience and benefit from competing in a rapidly growing digital ma Netflix to improve its platform, invest in personalised recommendations, and offer a l attract and retain customers.

However, increased competition has also had negative effects on Netflix. As rival ser Video, Disney+, and Apple TV+ entered the market, competition for exclusive content costs, as Netflix needed to invest heavily in producing original films and television pr from competitors. The company also faced pressure on subscription prices, as custo between services.

Figure 1: Subscription service standard subscription mont

	2019	2020	2021	2022	20
Netflix (Standard)	£8.99	£8.99	£[illegible].99	£10.99	£10
Disney+ (Standard)	n/a	£5.99 (launch price)	£7.99	£8.99	£8.
Amazon Prime Video	£7.99	£7.99	£7.99	£8.99	£8.

Despite these challenges, competition has driven Netflix to innovate, resulting in high continued growth and expansion. Recent innovations have included:

- using AI algorithms to recommend content based on viewing habits
- using AI to complete visual effects in films and programmes
- building the 'Open Connect' platform to improve streaming quality
- producing non-linear content such as the *Black Mirror: Bandersnatch* programm

However, the business has also experienced slower subscriber growth in some marke limit market share as well as encourage innovation.

Overall, Netflix demonstrates how operating in a competitive market can bring both b growth, and drawbacks, including increased costs and pressure from rival firms.

Extended-response questions

1. Discuss the value of differentiation to Netflix.
2. Analyse the impact of competition on Netflix.

4. Changing economic cond and competition

Changes in both the micro and macro economies will have an impact on the level within specific markets, and of the economy as a whole. The micro and macro ec and each will have an effect on the other. Increase in investment in one specific across the whole economy, which might then impact inflation which will subseque competitiveness.

How changing microeconomic conditions affect compe

- **Scarcity of resources**
  Competitive markets have low, or no, barriers to entry. This means that new compete with incumbents. As more firms enter the market, more pressure is that are available. This might mean that specialist labour, machinery or suita increasingly scarce. This will lead to an increase in business costs, making fir are able to find substitutes for these key resources.

- **Shifting consumer preferences**
  Over time, the needs and wants of consumers will change. Tastes and fashio will need to move scarce resources from one product to another. It may no l the production of a specific product, or the provision of service that is no lon markets that are mature or declining, the markets may become less competi incumbents gain an increasing share of a shrinking market. But the markets f goods may become more competitive as firms reallocate their resources to t signals suggest has the most potential for profit maximisation.

- **Changes to barriers to entry and exit**
  The ability of entrepreneurs to respond to signals and incentives by entering incumbents is a key part of competition. Markets with higher barriers to ent compete, while those with low barriers to entry will be more competitive changes over time. New technologies may make it easier to produce product reduce the cost of setting up certain types of business, patents will expire af innovative marketing can create brands that challenge the loyalty of custome

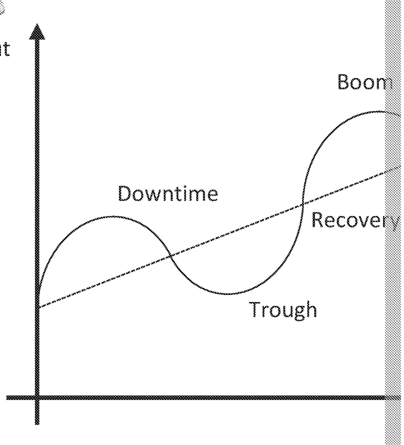
  Barriers to exit can also increase competition – albeit in a negative way. Firm or facing high closure costs may remain in a market that is no longer profitab and waste. When incumbents remain in a market due to high barriers to exit innovation as incumbents crowd out smaller firms that have the potential to

- **Innovation**
  As firms come up with new methods of production and distribution or new p their rivals. Other firms must also innovate or risk being left behind by those gain first mover advantages and consequently gain market share.

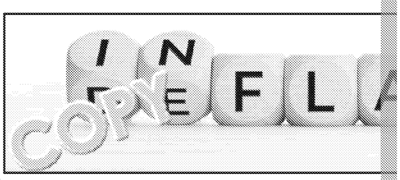
How changes in the macro economy affect competitio

Every individual market ultimately exists in a larger regional, national and global e
economies will impact the competitiveness of each market. Similarly, changes in i
impact on the overall competitiveness of national economies. Some of the key m
competition include:

- **The business cycle**
  As an economy moves from boom to bust and back again, there will be changes in the pr[illegible] of businesses. During economic downturns weaker firms may struggle. More powerful firms may engage in takeover activity, consolidating the market, increasing their power and ultimately reducing competitiveness. During a boom, rising incomes may attract entrepreneurs to take greater risks, starting small firms and thus increasing levels of competition.



- **Inflation and deflation**
  During times of high inflation, costs will rise for firms. Bills for raw materials and energy will rise and staff are likely to put pressure on managers to give them higher wages. These rising costs will make firms less competitive, potentially
  pass the higher costs on to customers. This will not only reduce the competit
  reduce national competitiveness as the higher prices lead to exports bei
  goods s[illegible] other countries.



  Deflation, a fall in the price level, is likely to create downward pressure on p
  shrinking profit margins. Firms may have to aggressively cut costs in order to
  competition as the revenue from every sale becomes increasingly important.

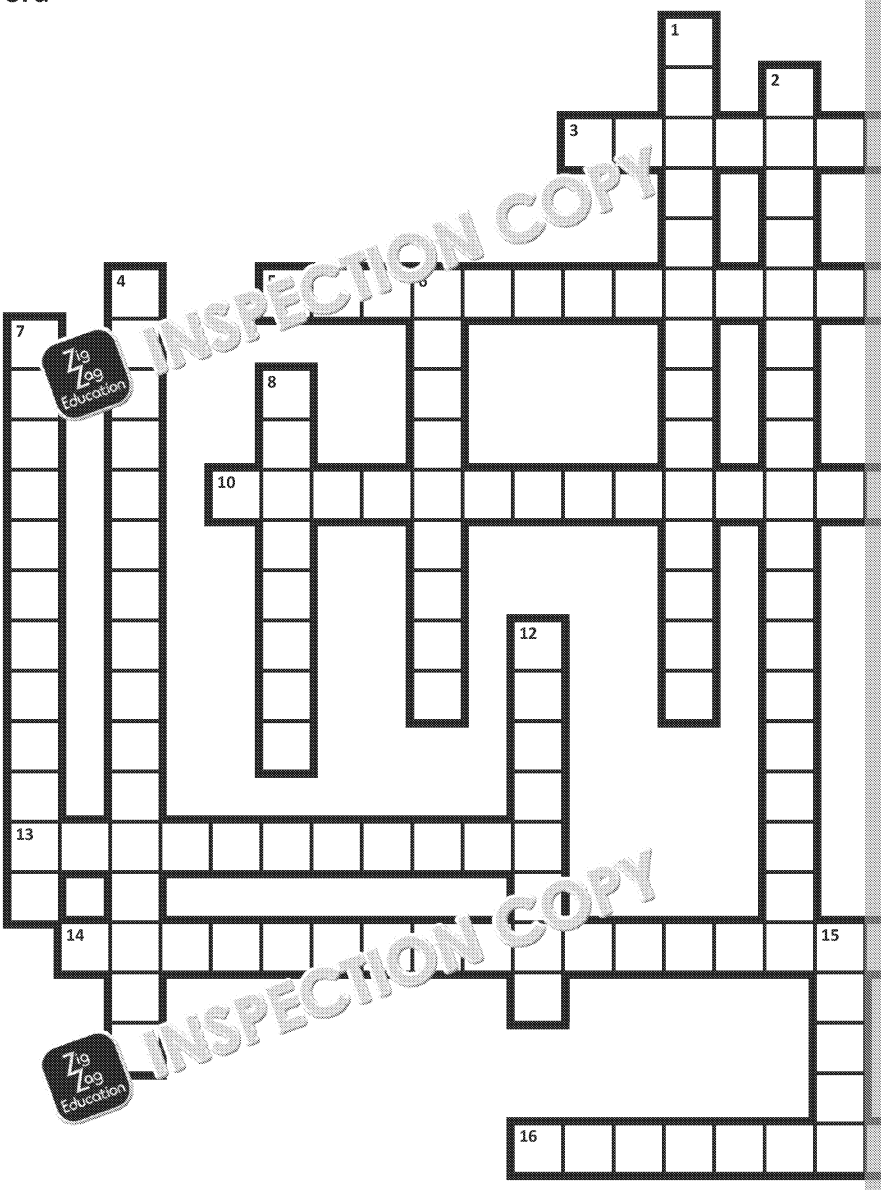
- **Government policy**
  The fiscal policy set by the government can have a large impact on competiti
  lead to higher costs for firms, making them less competitive. On the other ha
  attracting more firms into markets leading to higher levels of competition. G
  injections of cash into some parts of the economy. Firms may compete for co
  such as schools and hospitals in the short run, but ultimately, this will boost i
  the long run.

  The monetary policy set by the Bank of England will also be significant. Intere
  firms with large amounts of debt experiencing increases in costs. Cuts in inte
  borrowing, leading to higher levels of investment by incumbent firms in area
  develo[illegible] incentivise entrepreneurs to start new firms and enter

  Supply side policy might focus on stimulating competition, offering grants or
  firms in deprived areas, increasing competition in specific geographical areas
  may choose to create a climate of innovation to foster competition in the fut
  and training in specific areas such as engineering or AI research so that firms
  skilled workers in the future.

Activities: Changing economic conditions and competition

Crossword



Across

3 A legal agreement which commits both parties to meeting certain obligations. (8
5 When a market becomes increasingly concentrated in a few large firms. (13)
9 When GDP and inflation rise as economic activity peaks. (4)
10 Factors which prevent an entrepreneur from closing down their business. (8,2,4)
13 When the activity of one party in a market prevents others from participating. (8
14 When a firm is the first to market with a new product or type of product. (5,5,9)
16 The period of time between a boom, downturn and a recovery. (8,5)

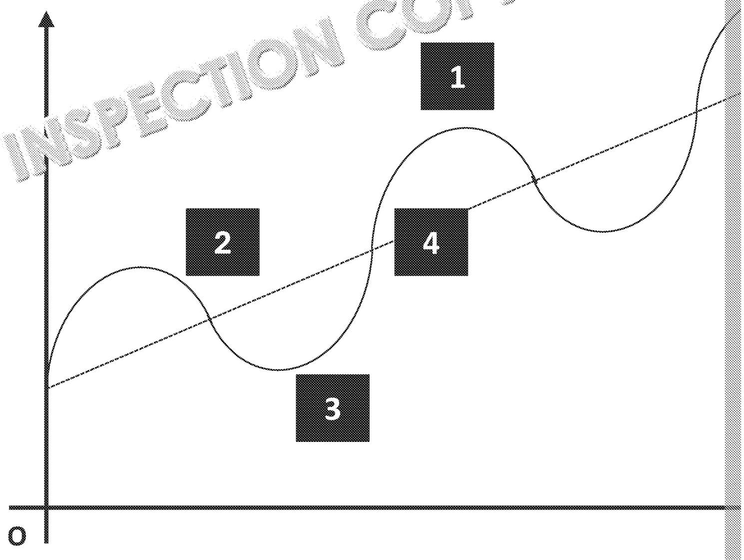
Down

1 The control of the money supply, usually by a central bank. (8,6)
2 When a firm makes the greatest possible amount of profit in a given market. (6,1
4 When the government seeks to increase the potential output of the economy. (6
6 A contribution to the costs of a firm. (9)
7 Tax and spending by the government. (6,6)
8 When the demand for something exceeds its availability. (8)
9 Factors which prevent entrepreneurs from setting up a firm in a given market. (8
11 The collected knowledge and skills of workers. (5,7)
12 When GDP falls and unemployment rises. (8)
15 Compulsory contributions to government revenue. (5)

Diagram

Label the business cycle diagram using the words below.

Trough	Trend growth	Recovery	Boom	Dow



Gap fill

Fill in the gaps with the words below.

barriers to entry	*[illegible]*	*interest rates*
business cycle	*preferences*	*resources*

Bean and C[illegible] independent coffee shop in Chester. It operates in a competit
microecono[illegible]d macroeconomic factors influence its performance. At the mic
such as skilled baristas, high-quality coffee beans and suitable locations can increa
makes it harder for Bean and Cole to compete with larger chains like Costa or Star
___(2)___, for example a growing preference for plant-based milk and vegan food
adapt its menu and sourcing strategies to remain appealing. Changes in barriers to
competition. While it is relatively easy for new cafés to open in Chester, high cost
___(3)___, limiting the number of potential competitors. **___(4)___** is important f
competitive edge. They regularly introduce seasonal drinks and operate a loyalty
advertising is an important part of their promotional mix.

At a macroeconomic level, the **___(5)___** affects Bean and Cole's performance. D
consumers spend more money on premium coffee. This encourages new entrants
competition. In downturns, weaker competitors exit the market, leaving Bean and
share. Rising **___(7)___** can increase the cost of ingredients and energy. This creat
which could force the café to raise prices, potentially reducing competitiveness. C
___(8)___ can make borrowing cheaper, allowing investment in new equipment o
area. Government policies such as small business grants, tax incentives or initiati
hospitality [illegible] shape the competitive environment. This will affect Bean and
compete effectively.

Case Study F: HMV

HMV was founded in the UK in 1921 entertainment retail market, selling For many years, this was a popular high-street retailers competing on p re... HMV became a well-know demand for CDs, DVDs, and vinyl, as prominent town-centre locations.

As digital downloads and streaming the 2000s, demand for physical me increased competitive pressure as c and films more conveniently and often at a lower cost through online platforms. Com reduced HMV's sales and made it harder for the business to compete in a shrinking m

In response, HMV attempted to adapt by diversifying its product range, selling items s merchandise, and turntables alongside traditional media. The company also placed g which experienced a niche resurgence in popularity. Despite these efforts, competitio financial difficulties, and HMV entered administration several times during the 2010s

Figure 1: Physical and streaming sales

Year	Physical Music Sales (£m)	Streaming Music Re
2020	210.3	736.5
2025	368.1	2,045.40

Following changes in ownership, HMV ...cused its strategy on fewer stores and a st culture and in-store exp... However, the business continues to operate in a ma the past and ...ins ... competitive.

Figure 2: Vinyl, CD and streaming prices

Year	Vinyl Album Price (GBP)	CD Album Price (GBP)	Strea
2020	19.99	9.99	
2025	28.99	11.99	

Source: HMV.com, Strea

HMV's experience shows how competition in a declining market can reduce sales an businesses to adapt their strategies in order to survive.

Extended-response questions

1. Discuss the importance of under...di... consumer preferences to HMV.
2. Analyse the impact ... in microeconomic factors on the competitive

5. Government policy and com

Government policy plays a key role in ensuring that markets are competitive. The
intervene in markets to increase levels of competition, and also ensures that the C
Authority (CMA) plays a role in regulating markets to ensure that the welfare of co
that smaller firms have fair access to markets and resources.

Privatisation and nationalisation

A major policy for government is deciding which firms should be run by the state a
private sector. In some cases there is an argument that where a natural monopol
nationalise industries and run them for the public good. Economic theory suggests
competition will lead to worse outcomes than allowing a state-sponsored mon
argument is that competition between privatised firms will lead to innovation and
firms will be invested in improving performance, leading to dynamic efficiency in t

Incentivising enterprise

The government may choose to use methods such as grants, subsidies or tax breaks
set up firms. This would promote new entrants into markets and would lead to an in
more firms enter the markets. This might be targeted at specific industries, geograp
across the economy. While this may lead to an increase in competition in the short
longer-term increase in competition. Firms developing AI or pharmaceuticals often
support in the early stages of their growth, but once they develop a viable product,
takeovers by large, cash-rich competitors wanting to save money on research and d
market power. This is a potential unintended consequence of encouraging enterpris

Deregulation

The government must balance a tension between ensuring that there is enough le
consumers while not overburdening firms with costly compliance issues. Regulati
by deregulating markets the government may be able to incentivise higher levels o
can lead to exploitation by firms who may act unethically if they are not restrained
firms are able to compete unfairly due to a lack of regulation, this may lead to a lo
long run.

Legal framework

The government creates the laws that are enforced by regulators. Laws such as th
and Consumers Act 2024 (DMCC) provide protection for consumers and for firms.
these laws to reflect the changing climate as business activity is increasingly condu
DMCC banned unfair competitive practices such as leaving fake reviews and mand
cancelling subscriptions.

EU trade law no longer applies in the UK following Brexit. Some elements of EU la
as a result of the backstop agreement. Many elements of EU law, such as the com
have been written into UK law as part of the Brexit agreement. They will be gradu
Although, theoretically, the UK can set different standards compared to Europe, i
influence on British firms. British firms wishing to sell goods in Europe must ensur
compliant with EU law. This means that in key areas such as food, chemicals and m
British firms must still follow EU law even though the government no longer has a
influence those laws.

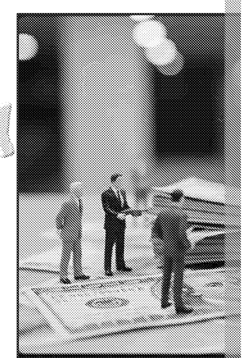
The role of the CMA in ensuring competition

The Competition and Markets Authority (CMA) is an independent regulator. Whil government, it is not controlled by the government and acts independently, ensu anti-competitive practices and that firms are not able to gain too much market p encompasses a number of activities:

- **Enforcement**
  The CMA is able to prosecute firms that break competition law and can impo proven to act anticompetitively. It can impose penalties of up to 10% of a co The effectiveness of the CMA's enforcement activity will depend on the impa firms, [illegible] 10% of turnover may only represent a small proportion of their even if they are caught and successfully prosecuted, the penalties simply be doing business.

- **Controlling mergers and acquisitions**
  When one firm wants to buy another firm, or two firms want to merge, this If the new, combined firm has a combined turnover of over £70m, a market CMA feels the merger would lead to a substantial lessening of competition, t This might lead to the merger being blocked, as was the case with Sainsbury' restrictions being put on the merger, such as having to spin off parts of the b

- **Market studies**
  The CMA will conduct reviews of markets, examining whether or not levels of competition are adequate or fair. Where it finds issues, such as in the market for petrol, it is able to enforce actions to increase competition, or, as was the case with the fuel market, it will simply publish its findings and recommendations and then monitor levels of competition with a view to taking action in the future if the issues it highlights don't [illegible].

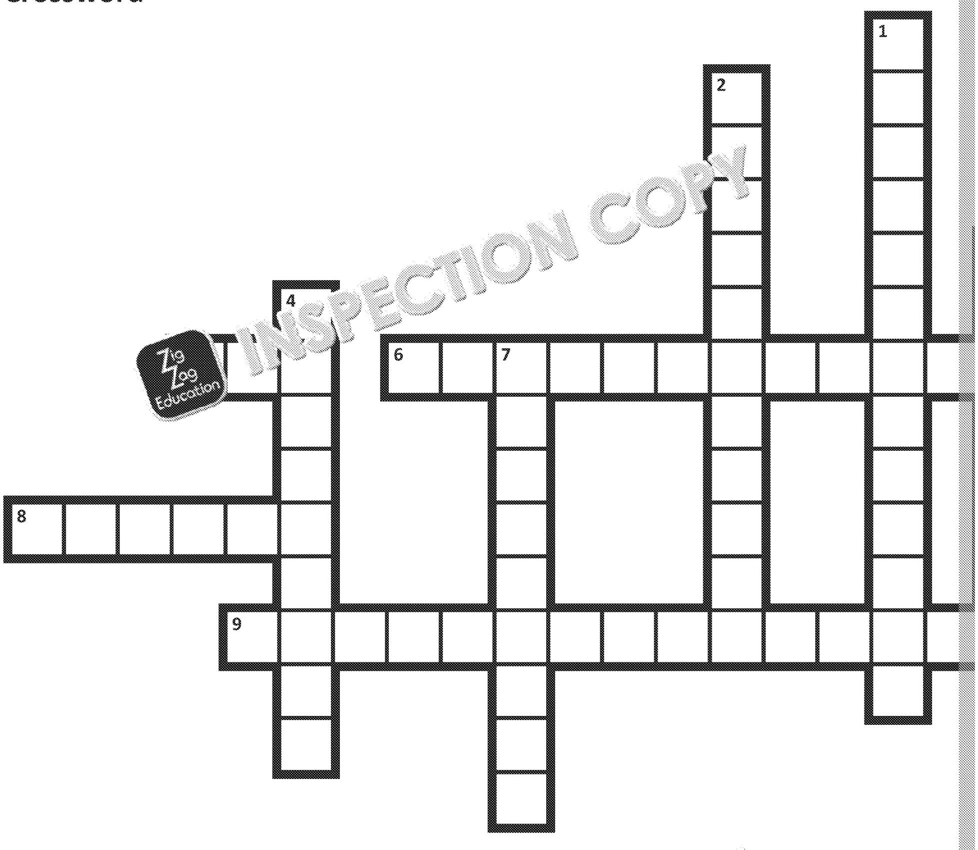


- **Enforcing consumer law**
  Consumers have a number of legal rights. They have the right to fair weights that is not misleading, to products that are fit for purpose. The CMA has pow can impose fines or other sanctions on those firms that compete unfairly by consumers.

  Ultimately the CMA regulates consumer markets and advises governments o shape the policies that the government sets. Other industry-specific regulato for example, the Office for Gas and Energy Markets (Ofgem) regulates the a The Financial Conduct Authority (FCA) regulates banks, ensuring that these v function correctly and that appropriate levels of competition are upheld – o competition, as in energy markets, that this is not exploited to the detrimen

Activities: Government policy and competition

Crossword



Across

5 The regulator that protects consum[illegible] and investigates mergers. (3)

6 When the government reduces the number of laws and regulations that busines

8 When two firms of [illegible] join together to form a single, larger firm. (6)

9 Where it is more efficient to allow one firm to dominate the market than having

Down

1 When state-owned businesses are sold to the private sector. (13)

2 Laws set by the government which firms must follow. (11)

3 When one large firm dominates a market. (8)

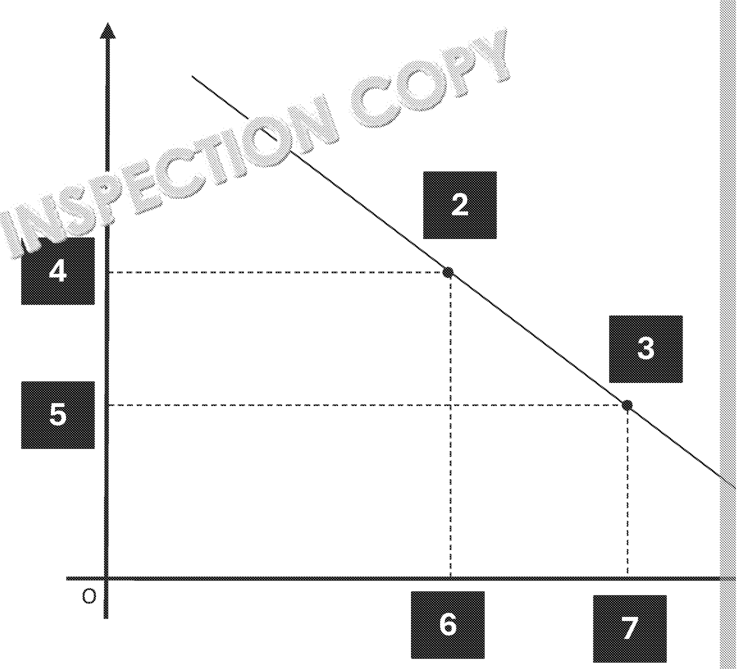
4 When a business is offered discounts on, or exemptions from taxes to incentivise

7 An independent organisation that sets and enforces rules for firms in specific ma

Diagram

Label the long-run aggregate supply diagram, illustrating the effect of deregulatio

$LRAS_1$	P_1	Y_1	AD	$LRAS_2$



Gap fill

Fill in the gaps with the words below.

mergers	*competition*	*CMA*	*Consumer R*
10%	*Ofgem*	*tax incentives*	*market p*

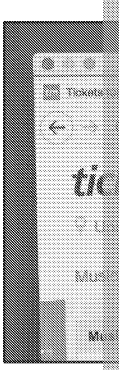
Government policy plays a key role in the regulation and competitiveness of mark energy sector, firms such as British Gas operate in a market that has been **___(1)___** energy companies now owned by shareholders. To ensure fair competition and pr government relies on the **___(2)___**, which enforces competition law and monito practices.

The government may also use tools such as **___(3)___** or subsidies to encourage i and new technologies, promoting both enterprise and innovation in the sector. H renewables sector may lead to firms gaining excessive **___(4)___**, which is why th potential **___(5)___** to ensure they do not reduce competition.

Regulation in the energy sector also includes rules on pricing, service quality and s industry-specific regulators, such as **___(6)___**, which set standards and enforce suppliers. Legal frameworks such as the **___(7)___** protect consumers, ensuring f measurements and the ability to switch providers without unfair obstacles.

Ultimately, the CMA and regulators aim to maintain **___(8)___** while allowing firm Penalties for anti-competitive behaviour can reach up to **___(9)___** of a company' deterrent against abuse of market power. Through these measures, government consumer protection, fair pricing, and a healthy level of competition in the energy

Case Study G: Ticketmaster



Ticketmaster is an international ticket sales and distribution company that operates in the live entertainment market. In the UK, the company has a significant presence and operates in a market where competition concerns have been raised due to its size and market power. Ticketmaster acts as an intermediary between event organisers and consumers, selling tickets for concerts, festivals, and sporting events.

The company has faced intervention from the UK Competition and Markets Authority (CMA), particularly in relation to its use of 'dynamic pricing' and how ticket prices are presented to customers. The CMA investigated whether Ticketmaster had provided clear and transparent information a
based on demand. This intervention aimed to protect consumers and ensure fair com

As a result of the CMA's involvement, Ticketmaster was required to make changes to
communicated additional fees. The company updated its website to provide clearer i
availability, and resale conditions. These changes were designed to reduce consume
in the market.

While the intervention increased compliance costs for Ticketmaster, it also helped to
encouraged greater transparency across the industry. Rival ticketing platforms were
were applied across the market.

Figure 1: Key economic indicators – UK ticket mark

	202
Total UK primary ticket market (£bn)	6.5
Ticketmaster estimated market share – primary (%)	45
Ticketmaster market share – secondary (%)	n/a
Average service fee per ticket (£)	9

Adapted from: Guardian, Wikipedia,

Subsequently, the government also intervened in the market for tickets, proposing a
tickets for more than face value. Ticketmaster is involved in both the primary market
and the secondary market, when private individuals sell tickets to each other. This w
both markets by making it harder for 'ticket touts' to exploit excess demand for ticke

Extended-response questions

1. Discuss the importance of controlling monopolists such as Ticketmaster for c
2. Analyse the impact of CMA regulation on firms such as Ticketmaster.

Preview of Answers Ends Here

This is a limited inspection copy. Sample of answers ends here to stop students looking up answers to their assessments. See contents page for details of the rest of the resource.

Glossary

Advertising	When a firm pays for space in a media channel to co
Aggregate demand	The total demand for all goods and services at a give
Aggregate supply	The total amount of goods and services that firms ar price level.
Allocative efficiency	When the price paid by customers is equal to the ma a [illegible]
Anchoring	Where firms deliberately manipulate customers' per product feel cheaper.
Balance of payments	The difference between payments into and out of an
Barriers to entry	Factors which prevent entrepreneurs from setting up
Barriers to exit	Factors which prevent an entrepreneur from closing
Boom	When GDP and inflation rise as economic activity pea
Brand	A unique identity created by a business which might i
Brexit	The withdrawal of the United Kingdom from the Euro
Business cycle	The period of time between a boom, downturn and a
Cartel	Where a group of firms make a formal agreement to at the expense of consumers.
Comparative advantage	When one country can produce a particular product its rivals.
Competition	Where firms use price and non-price factors to gain
Competition and Markets Authority	The regulator that protects consumer rights and inve
Competitive advantage	The ability of a business to differentiate a product or compared to rivals.
Competitive pricing	When a firm sets a price based on what its competito own costs.
Competitiveness	The ability of firms to compete with other incumbent
Consolidation	When a market becomes increasingly concentrated i
Consumer	The end user of a product; the person who will actua been bought.
Contract	A legal agreement which commits both parties to me
Convenience	How well the purchase of a product fits in with the p of customers.
Cost plus pricing	Where a price is set based on the costs of producing profit margin.
Creative destruction	The process whereby new innovations constantly rep closure of old industries.
Crowding out	When the activity of one party in a market prevents
Customer service	Actions taken by a firm to meet or exceed the needs
Customers	The people who purchase goods or services. They ma
Deadweight loss	A reduction in economic efficiency/welfare when a m
Deregulation	When the government reduces the number of laws a must follow.
Differentiation	Things that make one product distinct from those of
Digital exclusion	When individuals lack the skills and/or resources nee online activities.
Distribution	How a product is sold to customers through differen

Downturn	When GDP falls and unemployment rises.
Dynamic efficiency	The ability of firms to innovate and adapt over time, both products and the methods of making them.
Ethics	The core principles guiding the behaviour of a busine
Exchange rate	The cost of one currency in terms of another.
Extended services	Extra support services offered beyond the core produ
First mover advantage	When a firm is the first to market with a new produc
Fiscal policy	Tax and spending by the government.
GDP	A measure of the size of an economy.
Goods	Products with a tangible form that can be bought by
Homogeneous products	Where products are essentially identical and there is those offered by other firms.
Human capital	The collected knowledge and skills of workers.
Human resources	The business function focused on employing and dev
Imperfect competition	Where low barriers to entry mean that firms are unli power.
Inflation	The rate of change in the price level.
Informational advertising	Where customers are provided with basic details suc a product.
Infrastructure	The physical and organisational systems on which th
Innovation	Where firms find new and novel ways to make produ customer needs.
Interdependence	Where the behaviour of one firm determines how ot
International competitiveness	The ability of a country to sell goods in international
Legislation	Laws set by the government which firms must follow
Loyalty schemes	Where customers are rewarded for returning to a bu
Macroeconomics	The study of a whole economy.
Marginal cost	The cost of producing one more unit of a good or ser
Market	A convenient set of arrangements for trading goods a
Market rigging	When a firm illegally manipulates markets to maximi of customers.
Market share	The proportion of total sales in a market that is achie
Merger	When two firms of similar size join together to form
Microeconomics	The study of specific markets.
Monetary policy	The control of the money supply, usually by a central
Monopoly	A market which is dominated by a single large firm.
Natural monopoly	Where it is more efficient to allow one firm to domin smaller firms compete.
Non-price competition	Using means other than price to gain market share a
Normal profit	The level of profit where total revenue equals total c
Oligopoly	A market which is dominated by a small number of inte prone to engage in price wars.
Paradox of choice	When an excessive number of options available leads worse decisions.
Patent	A legal protection guaranteeing a monopoly on prod fixed period of time.
Penetration pricing	When a low price is set initially to attract customers,
Perfect competition	When a large number of price-taking firms sell homo

Persuasive advertising	Where emotive appeals are used to make a custome particular product.
Predatory pricing	Where firms deliberately set a price below average c competitors.
Premium product	A high-quality product that commands a high price r
Price competition	Where firms use pricing strategies and tactics in orde from rivals.
Price elasticity of demand	The responsiveness of demand to changes in price.
Price sensitivity	When customers are relatively responsive to change
Price skimming	Where a high price is set initially when a product is l
Principal agent theory	Managers may choose to work in their own best inte of shareholders.
Privatisation	When state-owned businesses are sold to the privat
Product life cycle	The stages that a product goes through, from its lau from the market.
Productivity	The amount of output produced with a given quantit of time.
Profit maximisation	When a firm makes the greatest possible amount of
Proxy measure	When a phenomenon can't be directly observed, oth establish its scope and size.
Psychological pricing	When a firm puts a cheap sale price alongside a lowe perceptions of value.
Quality	The standard that a business achieves in its products
Regulator	An independent organisation that sets and enforces markets or industries.
Regulatory environment	The system of laws and standards that govern the be
Revenue	Price × quantity.
Scarcity	When the demand for something exceeds its availab
Services	Intangible products where time, knowledge and skil an experience.
Signalling	When an action taken by one party to a transaction s
Standard of living	The level of wealth and necessities that a population
Strategy	A long-term plan of action created to facilitate the a objectives.
Subsidiary	A company that is owned and controlled by another
Subsidies	A contribution to the costs of a firm.
Supply side policy	When the government seeks to increase the potenti
Tax breaks	When a business is offered discounts on, or exempti activity in a specific area.
Taxes	Compulsory contributions to government revenue.
Tertiary sector	Concerned with the provision of services.
Trade bloc	A group of countries that remove barriers to trade w
Trade policy	The political, economic and legal choices made by a g imports and exports.
Unemployment	Where individuals are looking for a job but are unabl
Value added	When raw materials are transformed into finished g price that is higher than the cost of production.