



Starters and Plenaries

Theme 3: Business Behaviour

zigzageducation.co.uk

**POD
7801**

Publish your own work... Write to a brief...
Register at publishmenow.co.uk

Contents

Thank You for Choosing ZigZag Education	iii
Teacher Feedback Opportunity	iv
Terms and Conditions of Use	v
Teacher’s Introduction	1
Activity-by-activity Plan.....	2
3.1. Business growth	6
Activity 1 – Sizes and types of firms	6
Activity 2 – Business growth	8
Activity 3 – Demergers	10
3.2. Business objectives	11
Activity 4 – Business objectives	11
3.3. Revenue, costs and profits	12
Activity 5 – Revenue	12
Activity 6 – Costs	13
Activity 7 – Economies and diseconomies of scale	14
Activity 8 – Profits.....	15
3.4 Market structures	16
Activity 9 – Efficiency	16
Activity 10 – Market structures	17
Activity 11 – Market structures	18
Activity 12 – Oligopoly	19
Activity 13 – Monopoly	20
Activity 14 – Monopoly and monopsony	21
Activity 15 – Contestability.....	22
3.5 Labour market.....	23
Activity 16 – Demand/supply of labour	23
Activity 17 – Wage determination	24
Activity 18 – Wage determination (elasticities).....	25
3.6 Government intervention	26
Activity 19 – Government intervention	26
Activity 20 – Government intervention	27
Activity 21 – The impact of government intervention	28
Answers	29

Teacher's Introduction

Overview

This resource is essentially an activities only resource that has been designed to support the learning and teaching of Edexcel Theme 3. These useful activities will help to either switch pupils into learning mood at the beginning of the session or to wind down and take learning right up to the end of the lesson. Students will build on their understanding of key terms while developing new knowledge that is integral to the specification.

There are 21 activities in this resource, which closely follow the specification order, and can be conducted as individual, group or full-class activities. Teacher's notes, plus an activity-by-activity plan, are provided at the beginning of the resource to give guidance on how to teach the content. Some of this guidance includes additional activities. Here is an example:

Spec Area	Topic	Activity Description	Notes				Extra Resources	Assessment Objectives				Suggested Use
								AO1	AO2	AO3	AO4	
1.1. Nature of economics	What is economics?	Activity 1 – Fill in the missing words followed by a cut out and paste activity	Individual tasks (but can be done in pairs as well, where students can compare their answers)	✓	✓		Scissors and glue	X	X			Plenary

The starters and plenaries included are designed to help teachers prevent any breaks in students' learning by encouraging them to recap previously studied topics or begin to learn new ones. Each activity sheet should take between 10 and 20 minutes to complete. The end of the resource includes an answer sheet for students and/or teachers to use in marking.

It is hoped that this resource, as well as offering support for teaching the essential elements of the Edexcel examination, will help students build on any knowledge they already have.

Happy teaching!

December 2017

Free Updates!

Register your email address to receive any future free updates* made to this resource or other Economics resources your school has purchased, and details of any promotions for your subject.

* resulting from minor specification changes, suggestions from teachers and peer reviews, or occasional errors reported by customers

Go to zzed.uk/freeupdates

Priority-by-activity Plan

Spec Area	Topic	Activity Description	Notes	
3.1. Business growth	 Sizes of firms	Activity 1 – Brainstorming task followed by a research and a fill in the chart task	Can be done individually or in pairs.	✓
	Business growth	Activity 2 – Match up task followed by a fill in the table/blanks task	Task 1(a) and 2 may be done individually. Task 1(b) should be done as a whole class activity where a sheet is passed around with each person just filling in one piece of information.	✓
	 Demand	Activity 3 – Spot the errors task followed by a short group task	Task 1 can be done individually. For task 2, split the class into groups of three and assign a role to a person within each group (the roles are on the sheet).	✓
3.2. Business objectives	Business objectives	Activity 4 – Labelling and explaining diagrams	This activity may be done individually or in pairs.	✓
3.3. Revenue, costs and profits	Revenue	Activity 5 – Short questions/tasks	Individual activity.	✓

INSPECTION COPY

COPYRIGHT
PROTECTED



Spec Area	Topic	Activity Description	Notes		 
3.3. Revenue, costs and profits continued	Costs	Activity 6 – Noughts and crosses	For task 1, split the class into four groups to play a game of noughts and crosses on the white board. One by one choose an individual from each group to ask a question. The groups will only get to put a nought or a cross if the chosen person from their group has answered correctly. Note the answers are all in the tables (see bold terms) but have been converted into questions so they can readily be asked of students.		
	Economies and diseconomies of scale	Activity 7 – Definition task followed by drawing the diagram and researching tasks	Tasks 1 and 2 may be done individually. Tasks 3 may be done in pairs.	✓	✓
	Profits	Activity 8 – Quick questions	Tasks may be done individually.	✓	
3.4 Market structures	Efficiency	Activity 9 – Crossword task followed by extension	Individual activity	✓	
	Market structures	Activity 10 – Fill in the table task	Can be done individually or in pairs.	✓	✓
	Market structures	Activity 11 – Drawing and labelling the diagrams task	Individual activity	✓	

INSPECTION COPY

COPYRIGHT
PROTECTED



3.4 Market structures continued	Efficiency	Activity 12 – Calculation task followed by prisoner’s dilemma discussion task	Task 1 may be done individually. Task 2 should be done in small groups. Split the class into small groups and give them the prisoner’s dilemma scenario and ask what conclusion each group reaches.	✓		✓
	Monopoly	Activity 13 – Short questions	Tasks may be done individually or in pairs.	✓	✓	
	Monopoly and monopsony	Activity 14 – Fill in the table followed by short question	Tasks may be done individually or in pairs.	✓	✓	
	Contestability	Activity 15 – Hangman task followed by a question	Task 1 should be done in pairs. Task 2 should be done individually.	✓	✓	
3.5 Labour market	Demand / supply of labour	Activity 16 – Questions followed by a research task	Pair work			✓
	Wage determination	Activity 17 – Research task followed by drawing a couple of diagrams	Individual or pair work.	✓	✓	
	Wage determination (elasticities)	Activity 18 – Definitions task followed by some calculations	Individual work.	✓		

INSPECTION COPY

COPYRIGHT
PROTECTED



Spec Area	Topic	Activity Description	Notes		
3.6 Government intervention	Government intervention	Activity 19 – Discussion task	Divide the class into four groups. Each group should be given a different topic for their mind map. Students should then swap and compare.		
	Government intervention	Activity 20 – Political issues addressed by a debate	Task 1 may be done individually. For task 2, divide the class into four groups for a debate. Assign one of the following topics to each group (see sheet) where each group has to argue why their assigned measure to promote competition and contestability is the most effective out of the list.	✓	
	The impact of government intervention	Activity 21 – Short questions	Individual activity.	✓	

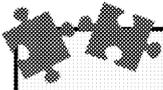
INSPECTION COPY

COPYRIGHT
PROTECTED



INSPECTION COPY

INSPECTION COPY



Activity 1 – Sizes and types of

1. Jot down a few reasons in the table below as to why some firms grow large.

Why firms choose to grow big?	Why firms choose to stay small?
	

2. Find out a number of profit and not-for-profit organisations and write them in the table below.

For profit	Not-for-profit
	
	

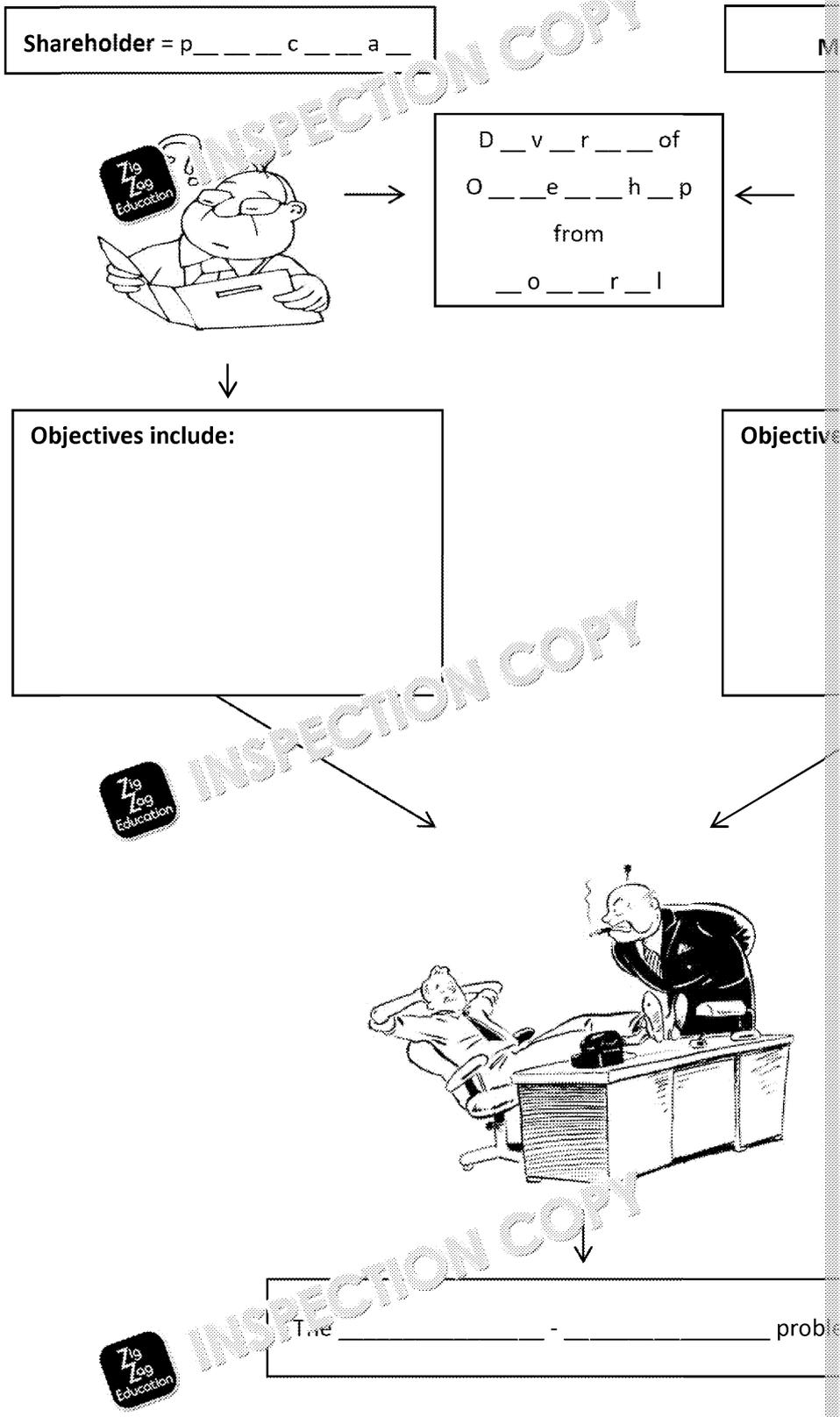
INSPECTION COPY

COPYRIGHT
PROTECTED



Activity 1 – Continued

3. Work out what the following chart is about and fill it in.



INSPECTION COPY

COPYRIGHT
PROTECTED





Activity 2 – Business growth

1. a) Match the following words to their definitions.

Organic growth	When a firm grows from the same preceding stage.
Forward vertical integration	When two firms from different industries merge together.
Horizontal integration	When two firms in the same industry merge together at the same stage.
Conglomerate integration	When a firm grows from the same stage but into a different industry.
Backward vertical integration	When a firm grows through reinvesting in its own supply chain.

b) Now pass this sheet around and each person should fill in only one row.

	Advantages	
Organic growth		
Vertical integration		
Horizontal integration		
Conglomerate integration		

INSPECTION COPY

COPYRIGHT
PROTECTED





Activity 3 – Demergers

1. Spot the errors in the following **reasons for firms demerging** and correct them.

- Firms are not able to raise money by selling some of their assets.
.....
- There are likely to be cultural similarities between two firms that have merged.
.....
- Regulation may force firms to break up to increase monopoly power.
.....
- Helps firms to specialise in the production of a limited type and number of products. In this way, firms can maximise their own diseconomies of scale and loss.
.....
- Firms may be experiencing economies of scale.
.....

2. Each student must write down the impacts of demergers on the following in the group.

The roles are: consumers, firms and workers.

Use the following table to jot down your points.

Consumers	Firms	

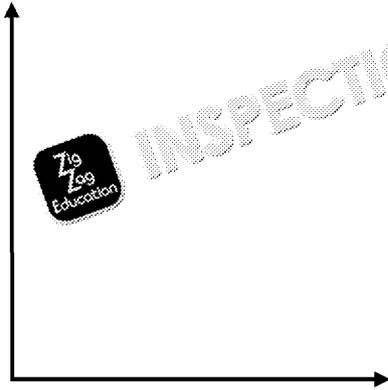
INSPECTION COPY

COPYRIGHT
PROTECTED



Activity 4 – Business objectives

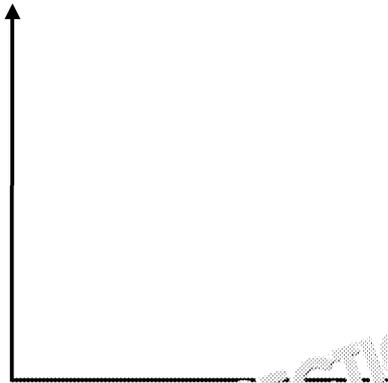
1. On the axes below, draw and label diagrams showing different business objectives next to the axes, briefly explain what they mean.



Name:

Formula:

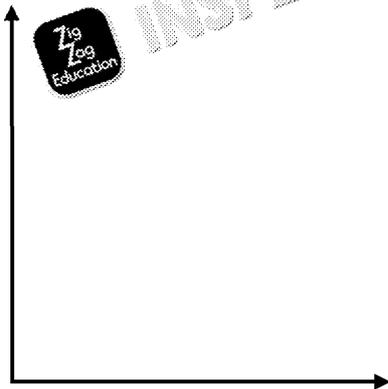
Explanation:



Name:

Formula:

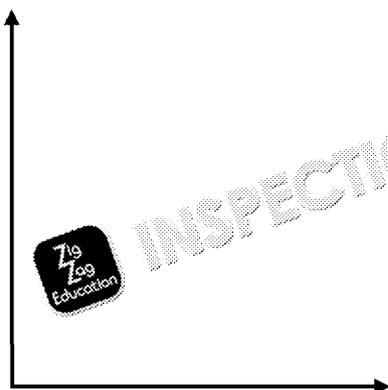
Explanation:



Name:

Formula:

Explanation:



Name:

Formula:

Explanation:

INSPECTION COPY

COPYRIGHT
PROTECTED



Activity 5 – Revenue

1. If total revenue (TR) = price × quantity, work out the formulae for the following:

a) Average revenue (AR) =

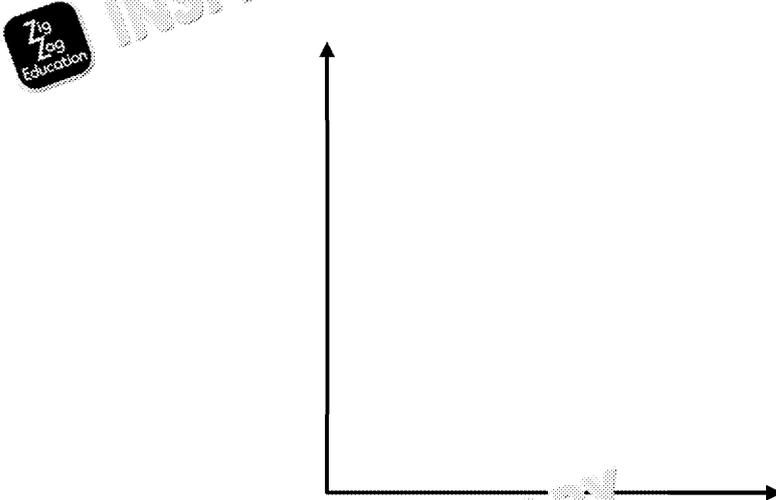
b) Marginal revenue (MR) =

2. a) Fill in the missing values in the table below:

Output	Price (£)	Average revenue (£)	Total revenue (£)
100		1,000	
101	900		90,900
102	800		81,600
103		700	
104			62,400
105	500	500	

b) What can be deduced from the above table?

3. Please draw the TR, AR and MR curves on the same axes below to show the relationship between the three concepts



4. Explain how an elastic demand curve affects total revenue.

.....

.....

.....

.....

INSPECTION COPY

**COPYRIGHT
PROTECTED**



Activity 6 – Costs

1. You can only put a nought or a cross if the chosen person from your group

PED value	Level of elasticity
What is the formula for total cost ?	What is total fixed cost ?
What is the formula for total variable cost ?	What is variable cost ?
What is the formula for average total cost ?	What is total cost / output ?
What is the formula for average fixed cost ?	What is total fixed cost / output ?
What is the formula for average variable cost ?	What is total variable cost / output ?
What is the formula for marginal cost ?	What is change in cost / change in output ?
What is the definition of total cost ?	What is the 'overall cost of running a business'?
What is the definition of total fixed cost ?	What is the 'cost of production that is the same, regardless of the level of output'?
What is the definition of total variable cost ?	What is the 'cost of production that varies with the level of output'?
What is the definition of total average cost ?	What is the 'overall average cost divided by the number of units produced'?
What is the definition of marginal cost ?	What is the 'amount of additional cost on producing an additional unit of output'?
What is meant by the short-run ?	What is 'the time period in which at least one factor of production is fixed'?
What is meant by the long-run ?	What is 'the time period in which all factors of production are non-fixed'?
What is meant by the diminishing marginal productivity ?	What is the process known as 'diminishing marginal productivity' where 'additional increases in a variable factor of production result in steadily smaller increases in output'?

INSPECTION COPY

**COPYRIGHT
PROTECTED**





Activity 7 – Economies and diseconomies of scale

1. Write down the definitions of the following:

a) Internal economies of scale:

.....

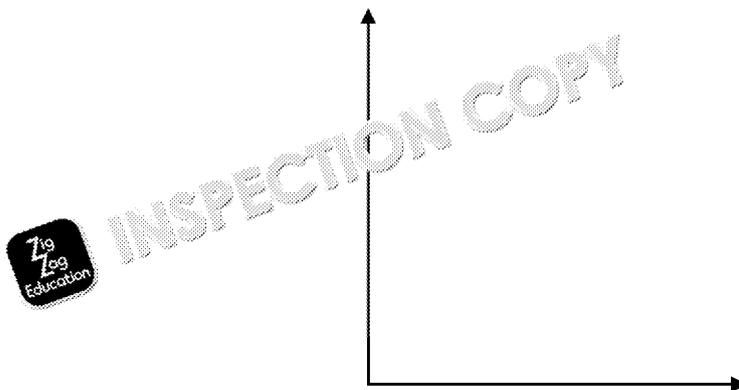
b) External economies of scale:

.....
.....

c) Diseconomies of scale:

.....
.....

2. On the axes below, draw and label the minimum efficient scale.



3. Research examples for the following types of internal economies of scale table below:

Financial economies	
Technical economies	
Managerial economies	
Marketing economies	
Risk-bearing economies	

INSPECTION COPY

COPYRIGHT
PROTECTED



Activity 8 – Profits

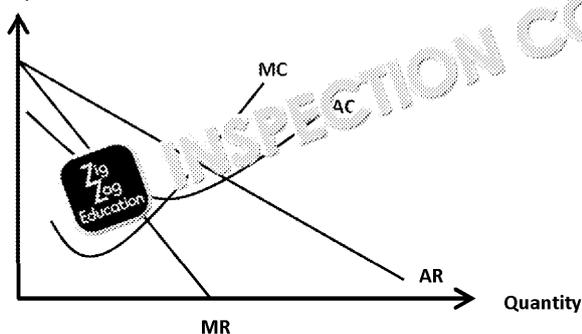
1. Which one of the following states the condition for profit maximising?

A	$MC = AC$
B	$AC = AR$
C	$MC = MR$
D	$MC = AC$
E	$AR = MR$
F	$AR = 0$

2. a) Work out which one of the diagrams represents:

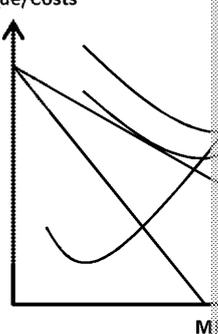
- Normal profit
- Supernormal profit
- Short-run loss
- Long-run loss

Revenue/Costs



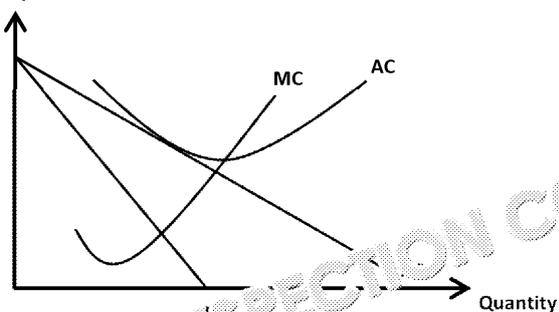
--

Revenue/Costs



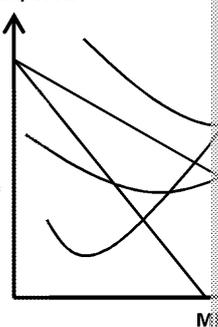
--

Revenue/Costs



--

Revenue/Costs



--

b) Now complete the above diagrams to show profit/loss. Label your diagrams.

INSPECTION COPY

COPYRIGHT
PROTECTED



Activity 0 – Market structure

1. Fill in the table below:

Market structure	Number/size of firms	Type of products	Level of barriers to entry/exit	Price taker/maker
Perfect competition				
Monopolistic competition				
Oligopoly				
Monopoly				
Monopsony				

INSPECTION COPY

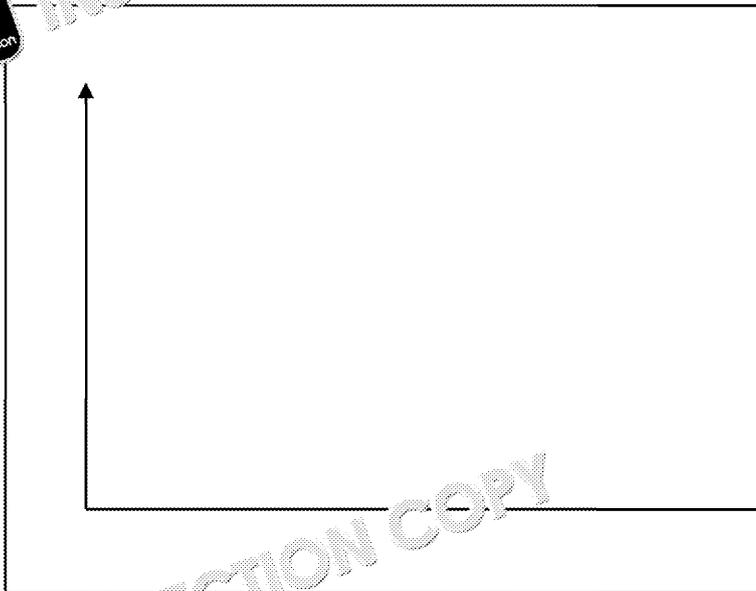
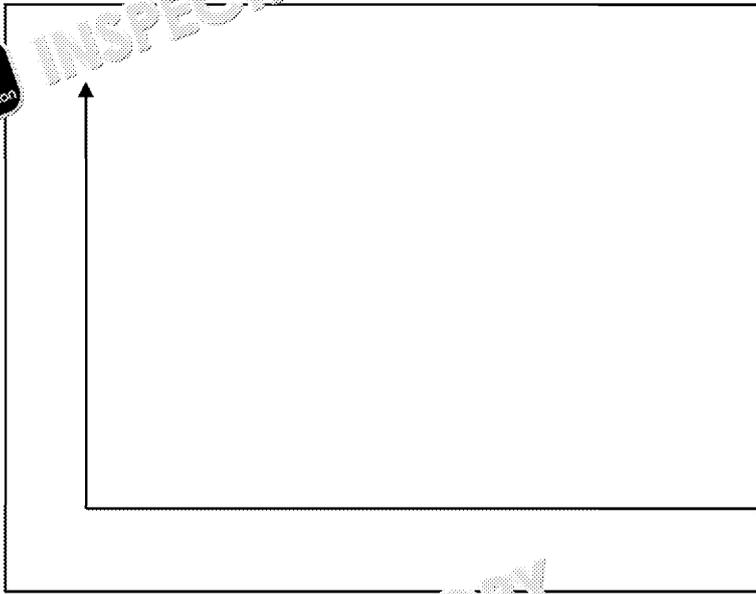
COPYRIGHT
PROTECTED





Activity 11 – Market structure

- Using the axes below, draw and label the long run profit maximising diagram:
 - Perfect competition.
 - Monopolistic competition.



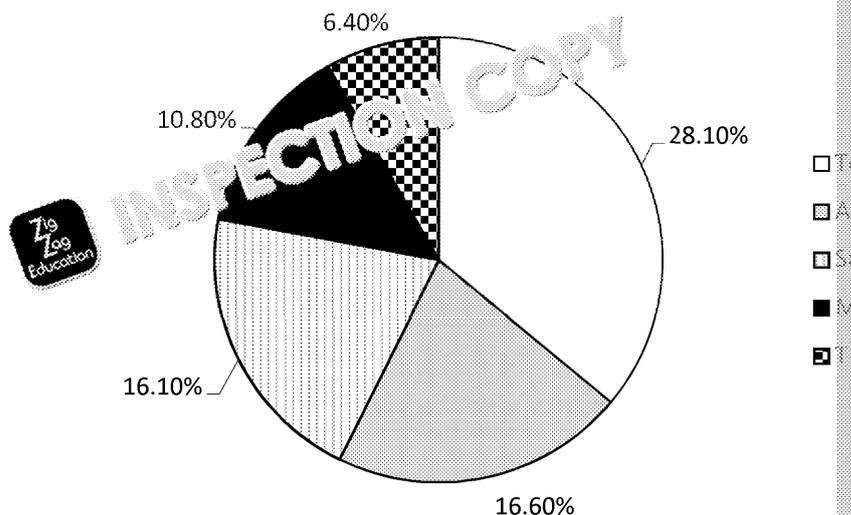
INSPECTION COPY

COPYRIGHT
PROTECTED



Activity 12 – Oligopoly

1. Calculate the four-firm concentration ratio using the following information



.....

.....

.....

2. a) Here is the prisoners' dilemma scenario. Discuss, in your groups, who should choose to confess.

		Prisoner A	
		Stay silent	Confess
Prisoner B	Stay silent	Both serve one year in jail	Prisoner A serves 10 years in jail Prisoner B serves 0 years in jail
	Confess	Prisoner A serves 0 years in jail Prisoner B serves 10 years in jail	Both serve one year in jail

- b) In your groups, work out how the prisoner's dilemma is related to oligopoly.

.....

.....

.....

INSPECTION COPY

**COPYRIGHT
PROTECTED**





Activity 13 – Monopoly

1. What are the three basic conditions for third degree price discrimination?

1.
2.
3.

2. Draw and label the diagram for third degree price discrimination in the space below.

Handwritten notes area

3. What are the costs and benefits of price discrimination for firms and consumers?

	Advantages of price discrimination	Disadvantages
Firms		
Consumers		

INSPECTION COPY

COPYRIGHT PROTECTED





Activity 14 – Monopoly and monopsony

1. What are the costs and benefits of monopoly and monopsony?

	Costs	
Monopoly		
Monopsony		

2. Explain how a natural monopoly is formed.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

INSPECTION COPY

COPYRIGHT PROTECTED





Activity 15 – Contestability

1. Think of any type of barrier to entry and exit and play a game of hangman. Now swap roles.

Zig Zag Education

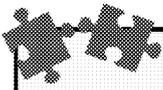
2. 'Contestable markets' are vulnerable to "hit and run" firms'. Explain this.

Zig Zag Education

INSPECTION COPY

COPYRIGHT
PROTECTED





Activity 16 – Demand/supply of

1. Below is a list of factors that affect either the demand for or supply of labour. Tick those that affect demand and supply.

- Productivity of labour (___)
- Income tax (___)
- Trade union (___)
-  tics (___)
- Demand for footwear (___)
- Price of goods (___)
- Perks at work (___)

2. Explain to the person next to you what we mean when we say demand for labour without using the following terms: derived, labour and demand.

3. a) Name the two main types of market failures in a labour market.

1.
2.

b) Explain what they mean.

1. 
2.

c) In the table below, find out and paste suitable images of examples of market failures. Now swap sheets with the person next to you and guess what their effects are.

	
---	--

INSPECTION COPY

**COPYRIGHT
PROTECTED**

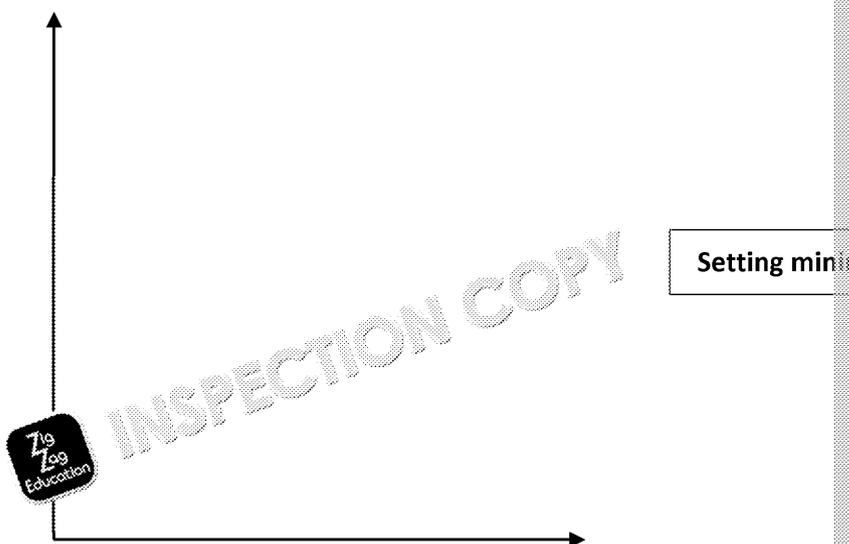


Activity 17 – Wage determination

1. Research some of the current labour market issues and make post-it notes on a board. Spend 15 minutes on this. You may use the following images to help.



2. A government may intervene in the labour market to correct a market failure. Draw and label labour market diagrams that match the headings provided.



INSPECTION COPY

COPYRIGHT
PROTECTED



Activity 18 – Wage determination (e)

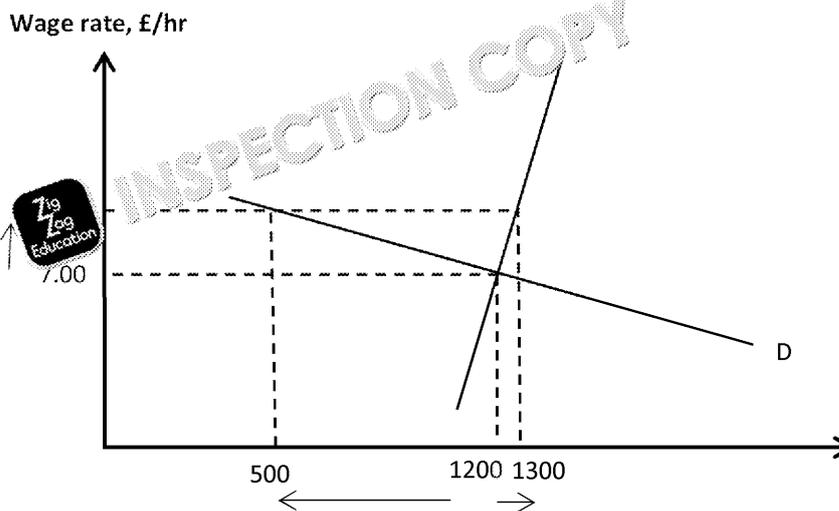
1. Write down the following formulae:

- Elasticity of labour demand =
- Elasticity of labour supply =

2. Below are listed statements about factors affecting the elasticity of labour. Which of the following statements is not true?

- Greater elasticity if cheap and easy to substitute
- Greater elasticity in long run
- Greater elasticity if PED high
- Greater elasticity if low skilled job
- Greater elasticity if higher proportion of labour cost in total costs

3. a) Just by looking at the diagram below, what can you infer about the elasticity of labour demand and supply?



b) Now write down the elasticity of labour demand and supply.

INSPECTION COPY

**COPYRIGHT
PROTECTED**



Activity 19 – Government intervention

1. Each group has to answer one of the following questions:

- How can the government control merger?
- How can the government control monopolies?
- How can the government promote competition?
- How can the government protect suppliers and employees?

Brain storm your ideas using the mind map below.



How can the government

_____?

Now share your ideas with the rest of the class.



INSPECTION COPY

COPYRIGHT
PROTECTED





Activity 20 – Government intervention

1. Write down the definitions of the following terms:

★ Asymmetric information	
★ Contestability	
★ Regulatory capture	
★ Mergers	
★ Nationalisation	
★ Price cap	
★ Price floor	
★ Privatisation	
★ Regulatory capture	

2. Each group has to argue why their assigned measure to promote competition is the most effective out of the list:

- Promoting small businesses
- Deregulation
- Privatisation
- Competitive tendering of government contracts

Students should use the following debate evaluation table to help them

Argument	
Strengths of argument	
Weaknesses of argument	
Are you convinced?	

INSPECTION COPY

COPYRIGHT
PROTECTED





Activity 21 – The impact of government intervention

1. Write down the impact of government competition policy on the following:

<p>Prices:</p> 	
	<p>Efficiency:</p>
<p>Profits:</p> 	

2. Define the following terms in as few words as possible:

- Regulatory capture =
- Asymmetric information =



INSPECTION COPY

COPYRIGHT PROTECTED



Answers

Activity 1 – Sizes and types of firms

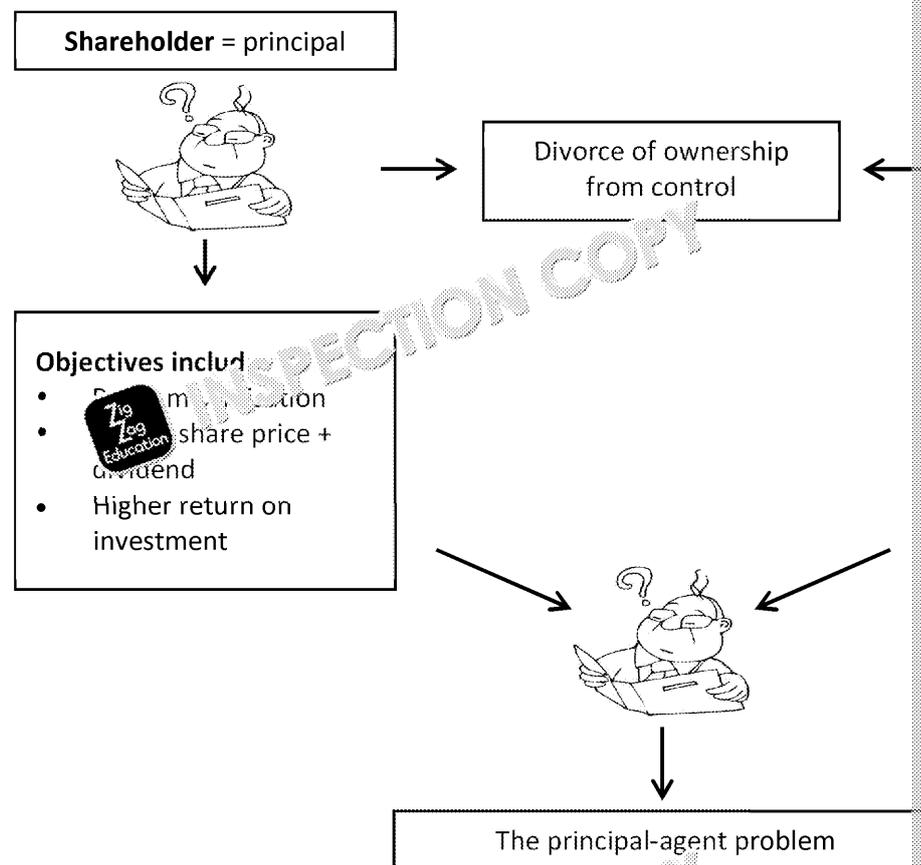
1.

Why firms grow big?	Why
<ul style="list-style-type: none"> To maximise their profits. To gain market power and be able to dictate prices. To benefit from reduced risks of falling demand for certain goods, as firms can diversify their product range as they grow. To take advantage of economies of scale. Some firms may have an ambition to run a larger firm. 	<ul style="list-style-type: none"> Firms may face higher costs. Some firms may find that as markets tend to be concentrated in a category of consumers, they may face competition. Firms may fear expansion. Managers may not want to mean more work.

2.

For profit	Not for profit
E.g. Ford	E.g. Human rights watch

3.



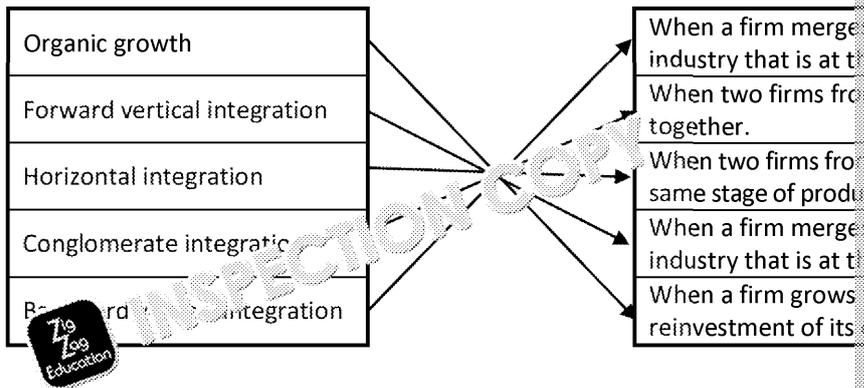
INSPECTION COPY

COPYRIGHT
PROTECTED



Activity 2 – Business growth

1. a)



b)

	Advantages	
Organic growth	<ul style="list-style-type: none"> Profits need not be split into many parts for reinvestment. Helps strengthen brand loyalty, which helps to increase sales and profits. Retain control and 'focus' of the business. Lower risk. Builds on existing strengths. 	<ul style="list-style-type: none"> Can pose a risk of over-reliance on a single product which increases the risk of economic downturn.
Vertical integration	<ul style="list-style-type: none"> Firms can have more control over their suppliers. Can achieve greater economies of scale. 	<ul style="list-style-type: none"> Can lead to a loss of focus on the core business. Restrictions on suppliers can make firms more vulnerable to changes in supply. Lack of flexibility.
Horizontal integration	<ul style="list-style-type: none"> Restricts competition, which allows firms to increase their profits. Firms can get a bigger market share. Economies of scale. Brings in applicable knowledge from the other firm. 	<ul style="list-style-type: none"> Can lead to a loss of focus on the core business. Problems can arise from the way the business is managed. Management may be out of the business. Loss of focus on the core business. Financial problems in the long-term.
Conglomerate integration	<ul style="list-style-type: none"> Reduces risk as firms can rely on the sale of various products. Profitable businesses can fund loss-making businesses. 	<ul style="list-style-type: none"> Firms may not be able to scale if the market is saturated. Firms may not be able to diversify into new products.

- 2.
- Market may be **saturated**, i.e. there may already be sufficient provision of goods and services, so there are no more **consumers** left to buy any **additional** goods.
 - A business may be unable to access **finance** (i.e. acquire money to invest), which may be due to a lack of collateral. It may be that banks refuse to lend large sums of money to **small** businesses due to the high risk involved.
 - Business growth may not be the main **objective** for some owners. They may be more interested in increasing their **margins** to receive higher **dividends**.
 - Business growth may be constrained due to government policy to promote competition. Governments tend not to allow firms to **merge**.

INSPECTION COPY

**COPYRIGHT
PROTECTED**



Activity 3 – Demergers

- Firms are **not** able to raise money by selling some of their assets. (remove 'not')
 - There are likely to be cultural **similarities** between two firms that have merged
 - Regulation may force firms to break up to increase **monopoly power** in the market
 - Helps firms to specialise in the production of a limited type and number of goods, so they can maximise their own **diseconomies** of scale and **losses** (economies and profits)
 - Firms may be experiencing **economies** of scale (diseconomies)

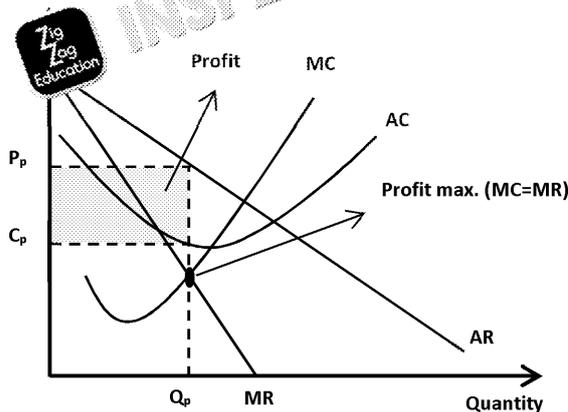
2.

Consumer	Firms
<ul style="list-style-type: none"> Greater competition may translate into lower prices. Smaller businesses could mean that consumers receive a better service. Increase in the number of firms may bring increased variety of products for consumers, as firms try to gain advantage over one another. There is a possibility that prices could <i>increase</i> if the firm loses economies of scale after a demerger. 	<ul style="list-style-type: none"> Economies of scale might be lower following a demerger. Conversely, firms may avoid experiencing diseconomies of scale through a demerger. Firms can earn money from selling assets. Firms may get a higher profit margin. Could also <i>lose</i> profit after a demerger (at least in absolute terms). Gain benefit from taking back control.

Activity 4 – Business objectives

1.

Revenue/Costs



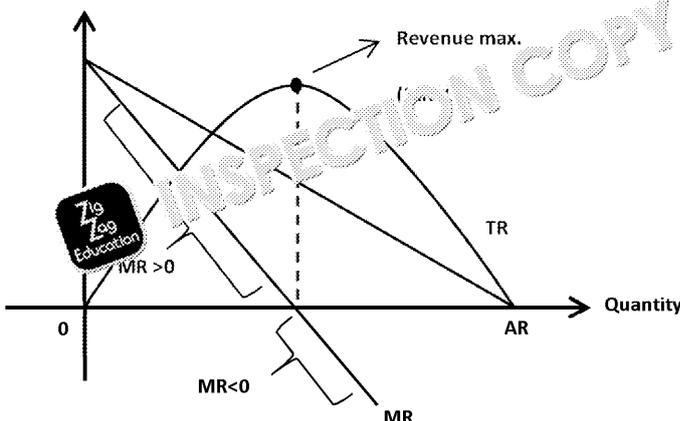
Name: profit maximisation

Formula: $MC=MR$

Explanation: Based on profit decision making, firms aim to maximise their utility. Firms aim to maximise their utility by producing what they can.

Note: the diagram shows profit maximisation for a firm.

Revenue



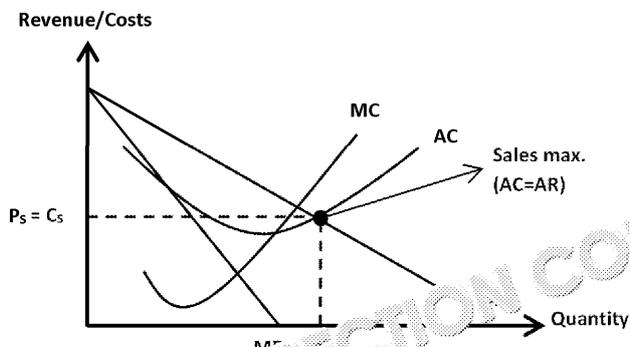
Name: revenue maximisation

Formula: $MR=0$

Explanation: Firms aim to produce the maximum quantity (in terms of sales) in order to improve their performance.

COPYRIGHT PROTECTED

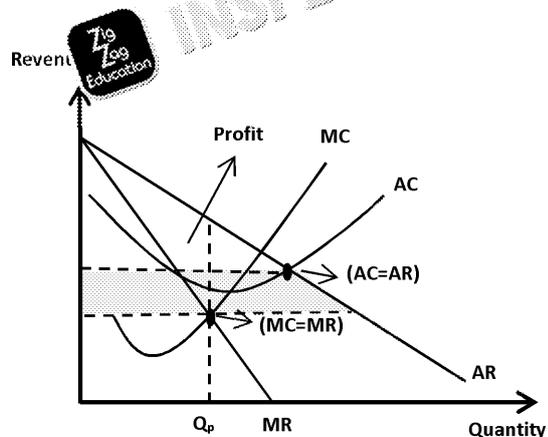




Name: sales maximization

Formula: $AC=AR$

Explanation: Some firms produce the maximum number of units if total revenue is maximized, as they care more about their utility, as they care more about their performance.



Name: satisficing

Formula: no formula

Explanation: This is a strategy where a firm produces just enough to satisfy its needs, rather than a strategy that maximizes profit or revenue.

(Note: the diagram shows the profit area between the profit and revenue maximization points, which is the shaded region.)

Activity 5 – Revenue

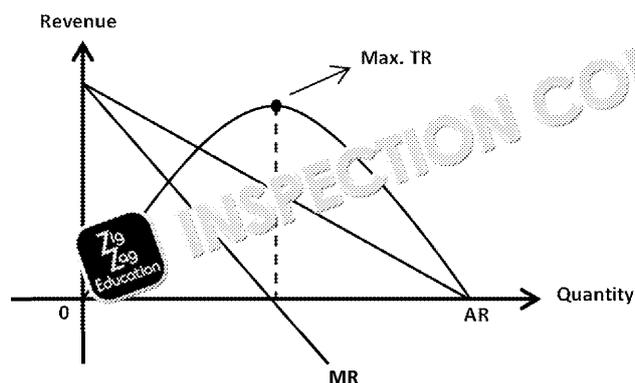
1. a) Total revenue / quantity
- b) Change in revenue / change in quantity

2. a)

Output	Price (£)	Average revenue (£)	Total revenue (£)
100	1,000	1,000	100,000
101	900	900	90,900
102	800	800	81,600
103	700	700	72,100
104	600	600	62,400
105	500	500	52,500

b) Average revenue = price

3.



4. When demand is elastic, a small fall in price will increase demand by a greater proportion.

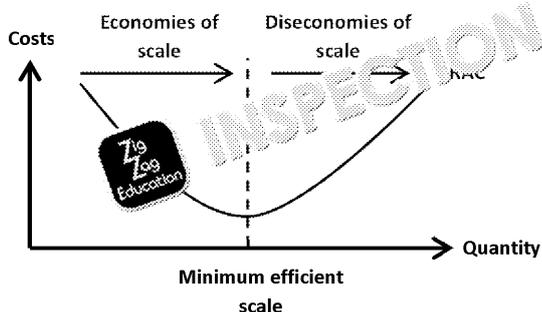
**COPYRIGHT
PROTECTED**



Activity 7 – Economies and diseconomies of scale

1. a) When an increase in the size of a firm leads to a decrease in its average cost.
- b) When there is a decrease in the average cost of a firm due an increase in the size of the firm it operates in.
- c) When an increase in the size of a firm also leads to an increase in its average cost.

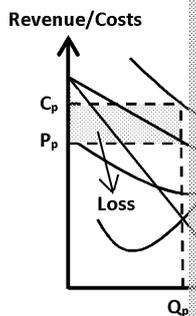
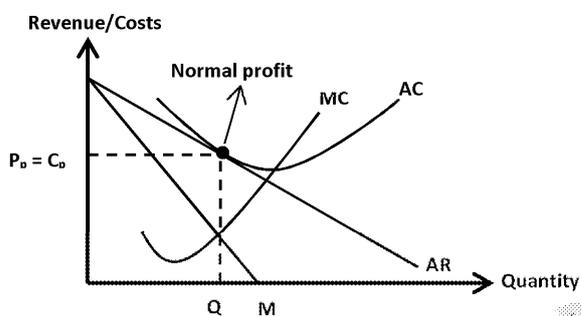
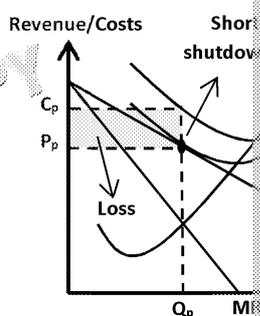
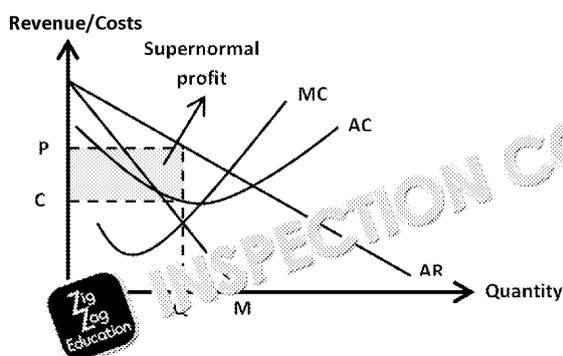
2.



Activity 8 – Profits

1. $C (MC = MR)$

2.

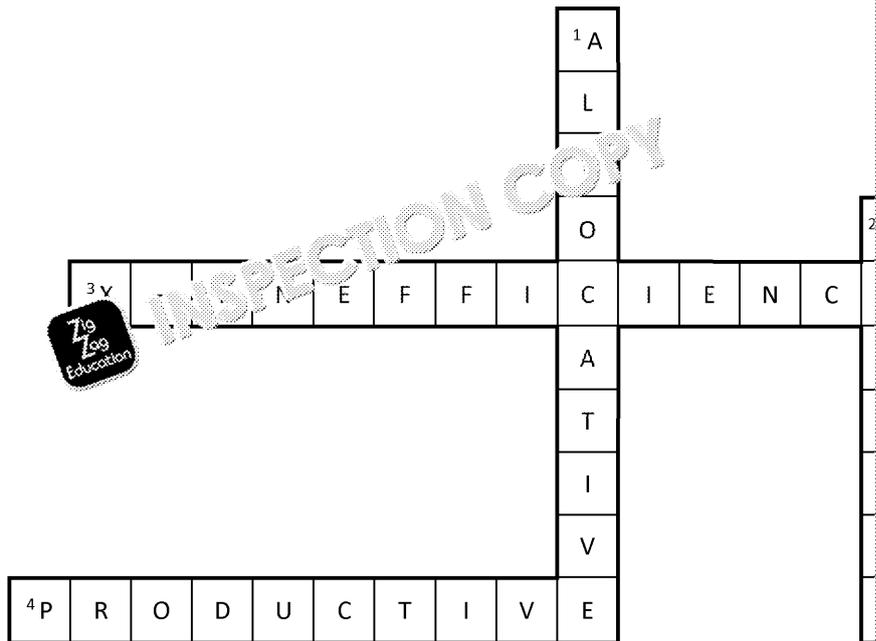


**COPYRIGHT
PROTECTED**



Activity 9 – Efficiency

1. a)



- b)
- 1: This occurs when $P = MC$.
 - 2: Firms suffer increased short-run average costs to gain decreased long-run
 - 3: This is a feature of non-competitive industries.
 - 4: This occurs when $MC = AC$.

Activity 10 – Market structures

1.

Market structure	Number/size of firms	Type of products	Level of barriers to entry/exit	Price taker/maker	Access to information
Perfect competition	Large number of small firms	Homogeneous	Zero	Price taker	Perfect information
Monopolistic competition	Large number of small firms	Similar	Low	Price maker (limited influence)	Imperfect information
Oligopoly	Small number of large firms	Product differentiation	High	Price maker (firms interdependent)	Imperfect information
Monopoly	One firm	Single product	High	Price maker	Imperfect information
Monopoly	One supplier	Unique product	High	Price maker	Imperfect information

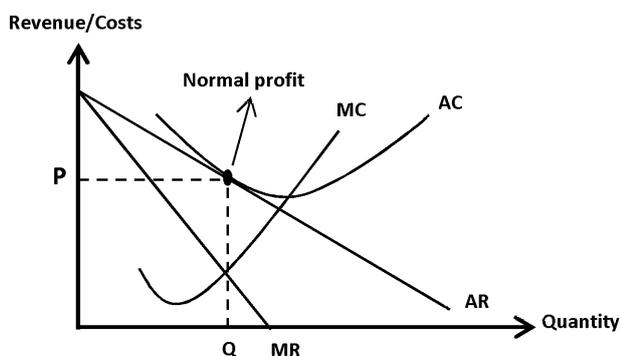
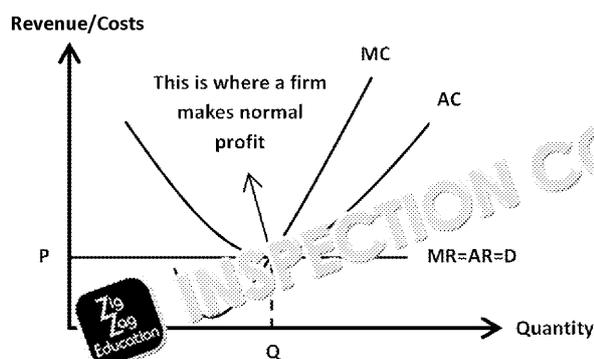
INSPECTION COPY

**COPYRIGHT
PROTECTED**



Activity 11 – Market structures

1.



Activity 12 – Oligopoly

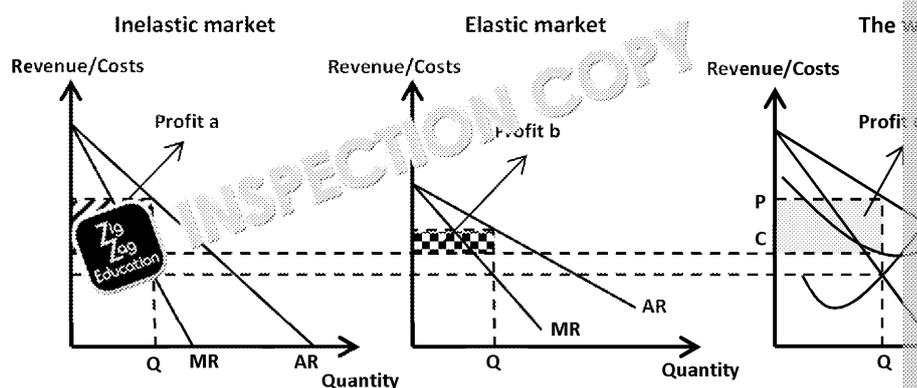
1. 71.6%

2. b) It helps understand why firms collude on prices. Setting prices independently would not independently ensure all firms benefit.

Activity 13 – Monopoly

- The firm should have enough power to price discriminate. This is only possible (as a price maker).
 - The firm should be able to differentiate between different markets (i.e. markets based on the different elasticities of demand for each group).
 - Consumers should not be able to sell the products to one another (i.e. prevent arbitrage).

2.



**COPYRIGHT
PROTECTED**



3.

	Advantages of price discrimination	Disadvantages
Firms	<ul style="list-style-type: none"> Higher profits Higher dividends for shareholders Higher salaries for workers, potentially improving their productivity 	<ul style="list-style-type: none"> Costs of distribution Market research
Consumers	<ul style="list-style-type: none"> Some groups benefit from lower prices 	<ul style="list-style-type: none"> Some groups benefit from higher prices Loss of consumer surplus Regressive distribution Allocative inefficiency Welfare loss

Activity 14 Monopoly and monopsony

1.

	Costs	Benefits
Monopoly	<ul style="list-style-type: none"> Higher prices for consumers Low output for consumers Monopolies are very inefficient: <ul style="list-style-type: none"> Productively inefficient Allocatively inefficient (resources are not being utilised where they should be) X-inefficient New firms find it difficult to enter the market Resources may be wasted due to cross-subsidisation Price discrimination intended to reduce consumer surplus 	<ul style="list-style-type: none"> Producers can benefit Monopolies can benefit if they can benefit from economies of scale Cross-subsidisation: one department subsidises another even goods Some externalities Monopolies can invest in research and development particularly in pharmaceuticals Monopolies can benefit from natural monopolies, for example, water supply
Monopsony	<ul style="list-style-type: none"> Suppliers may stop making a profit, and this will result in unemployment Supplier may have to reduce the quality of its products to maintain profits 	<ul style="list-style-type: none"> Lower raw material costs Lower prices for consumers If a monopsony can reduce prices, it can benefit Higher profits for workers

2. Natural monopolies occur when the only feasible option for an industry is to have just one firm. This is because in some markets there are very high sunk costs. And so setting up and running such a firm for a very long time, which is unsustainable for a producer. Therefore, generally such markets are natural monopolies. Natural monopolies can be seen in markets for gas, water, electricity, etc.

Activity 15 – Contestability

- Some examples include:
 - High sunk costs, such as advertising costs
 - Copyrights
 - Pricing strategies
 - Economies of scale
- This market is contestable if, when firms begin to make supernormal profits, new firms are encouraged to enter the market. If there are no barriers to entry, this will allow this to happen. However, as supply in the market will increase, prices will fall. Once this happens, the newly joined firms will exit the market due to low barriers to exit. One barrier to entry for existing (or incumbent) firms is that they will begin to act like a perfectly competitive firm, making normal profits and attracting the notorious 'hit and run' firms. Therefore, firms will stop producing where price is equal to their average costs ($P=AC$).

INSPECTION COPY

COPYRIGHT PROTECTED

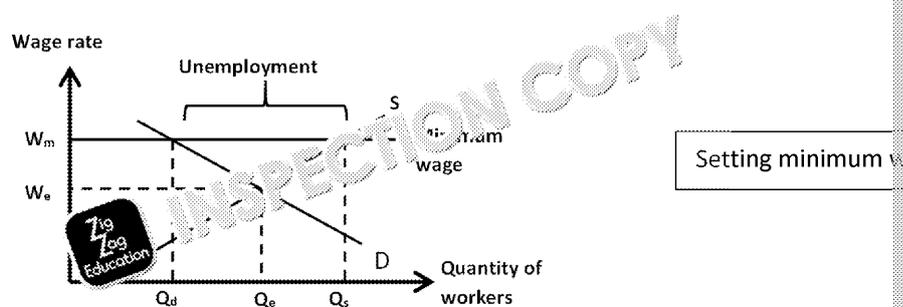


Activity 16 – Demand/supply of labour

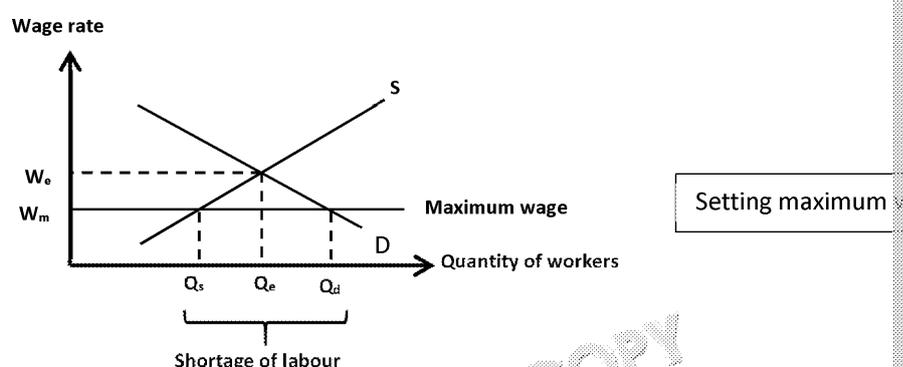
- Productivity of labour (D)
 - Income tax (S)
 - Trade union (S)
 - Migration (S)
 - Demand for footwear (D)
 - Price of goods (D)
 - Perks at work (S)
- E.g. this means that firms want to hire more workers when consumers want to buy more of the goods workers produce.
- Geographical immobility
 - Occupational immobility
 - A worker is geographically immobile when he/she cannot physically move to another area. This restraint may be due to high house prices elsewhere, family ties, etc.
 - A worker is occupationally immobile when he/she cannot move to another industry. This typically occurs when a whole industry becomes redundant (e.g. coal mining in the UK). When this happens, workers who worked for that industry are unlikely to possess the skills required for any other kind of job.

Activity 17 – Wage determination

2.



Setting minimum wage



Setting maximum wage

Activity 18 – Wage determination (elasticities)

- $$\text{Elasticity of labour demand} = \frac{\% \Delta \text{ quantity of labour demanded}}{\% \Delta \text{ wage rate}}$$

$$\text{Elasticity of labour supply} = \frac{\% \Delta \text{ quantity of labour supplied}}{\% \Delta \text{ wage rate}}$$

**COPYRIGHT
PROTECTED**



2. Greater elasticity if low skilled job – this is true of labour supply
3. a) Elasticity of labour demand seems very elastic while the elasticity of labour supply

$$\% \Delta \text{ quantity of labour demanded} = \frac{500 - 1200}{1200} \times 100 = -58.3\%$$

b)

$$\% \Delta \text{ wage rate} = \frac{9 - 7}{7} \times 100 = 28.6\%$$

$$\text{Elasticity of labour demand} = \frac{-58.3\%}{28.6\%} = -2.04$$

$$\% \Delta \text{ quantity of labour supplied} = \frac{1300 - 1200}{1200} \times 100 = 8.3\%$$

$$\% \Delta \text{ wage rate} = \frac{9 - 7}{7} \times 100 = 28.6\%$$

$$\text{Elasticity of labour demand} = \frac{8.3\%}{28.6\%} = 0.29$$

Activity 20 – Government intervention

1.

<ul style="list-style-type: none"> Asymmetric information 	This is when one party knows less than the other. It is when consumers know less than the firms when it comes to government intervention.
<ul style="list-style-type: none"> Contestability 	This refers to the existence of barriers to entry and exit.
<ul style="list-style-type: none"> Deregulation 	This is about reducing barriers to competition.
<ul style="list-style-type: none"> Mergers 	This refers to the combining together of two or more firms.
<ul style="list-style-type: none"> Nationalisation 	This is about bringing privately owned property/firms into public ownership.
<ul style="list-style-type: none"> Price cap 	This refers to the setting of an upper limit for the prices that firms can incorporate into their prices.
<ul style="list-style-type: none"> Price floor 	This refers to the imposition of a minimum price. It is illegal to sell the product below this price.
<ul style="list-style-type: none"> Privatisation 	This is about giving state-owned property/firms to private ownership.
<ul style="list-style-type: none"> Regulatory capture 	This refers to the regulatory agency being influenced by the firms it is regulating.

**COPYRIGHT
PROTECTED**



Activity 21 – The impact of government intervention

1.

<p>Prices: Competition will increase, leading to lower prices for consumers as firms cut prices down to attract more customers.</p>	<p>If inter- compe- tition improves</p>
<p>Efficiency: Firms' efficiency is likely to increase if competition increases, as firms strive to reduce costs and increase productivity.</p>	
<p>Profits: Profits will drop for firms if competition rises. However, firms could improve their efficiency if a price cap was imposed: this will increase/sustain their profits. But regulators could underestimate efficiency gains.</p>	<p>More</p>

- 2.
- Regulatory capture, e.g. regulators favour big firms and do not perform their duties
 - Asymmetric information, e.g. regulators have insufficient information about firms

INSPECTION COPY

**COPYRIGHT
PROTECTED**

