

economics

3.2

perfect competition and monopolies



perfect knowledge



many buyers & sellers

tips ⁴ learning

(WHY YOUR BRAIN IS NOT A BUCKET)

This book chunks the content into units and topics. **Don't** start trying to learn the stuff in each unit or topic by reading the notes. That's the worst way to learn.

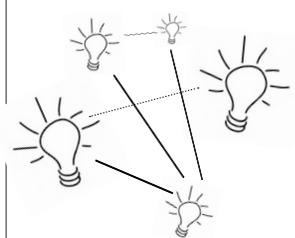
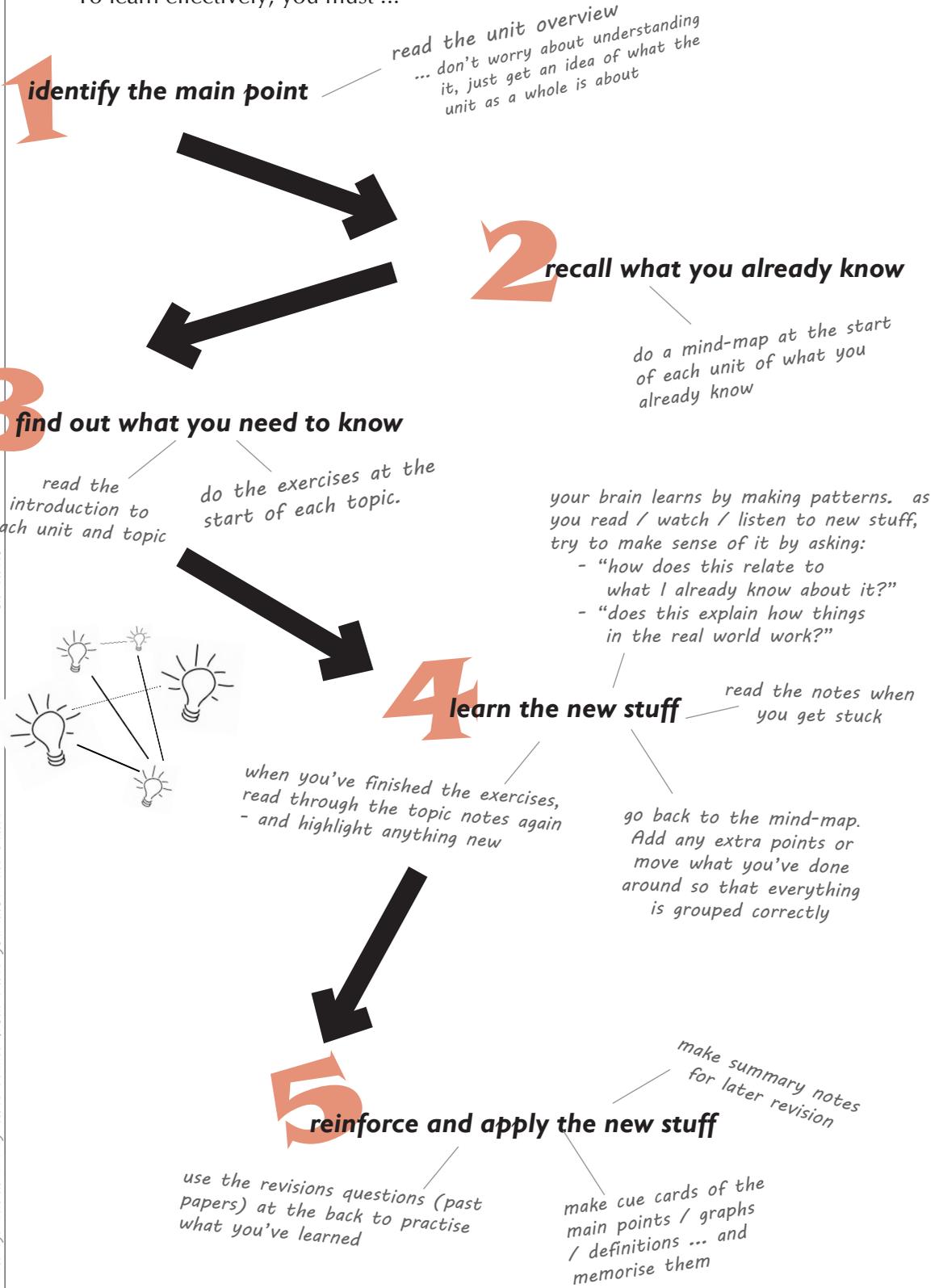
Many students think their brain is a bucket ... i.e. if they 'tip' stuff into it by reading notes, listening to lectures, watching podcasts, etc ... they'll learn. You won't.

Your brain is not a bucket.



To learn effectively, you must ...

ASKING QUESTIONS
 When you get stuck ask questions, but ask smart questions. Don't ask "I don't understand". Can you please explain?". That's a 'bucket' question, i.e. you're asking for facts to fill your head. Instead ask "I understand this part. Can you please explain how that part relates to it?" on that. Always ask in a way that starts from what you know and builds



this book belongs to: _____

Level 3 Economics

Perfect Competition and Monopolies
(AS 91400)

WORKBOOK

By Richard Dykes

Third Edition 2013



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3.2

WE NEED YOU



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You can make it better.

Can you ...

- offer better activities?
- correct or improve the notes?
- write model answers?
- create supporting digital resources?
(e.g. podcasts, screencasts, iphone apps)
- convert the material into different media?
(e.g. digital books, OneNote files, etc)

Help achieve the vision of a true multimedia resource for learning economics. Contact me if you can help in any way. All contributions will be fully acknowledged.

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overview of standard

Not all markets are the same. Some are more competitive than others. This standard looks at two, opposite, types of markets - **perfect competition** and **monopolies**.

It looks at the characteristics of both markets and how this affects the behaviour of firms, i.e. how do they decide what quantity to produce and what price to sell at.

It considers how the **government** may **intervene** in a market with a **natural monopoly** to get more desirable outcomes for consumers.

BY THE END OF THIS STANDARD, YOU SHOULD BE ABLE TO ANSWER THESE QUESTIONS...

1 what is perfect competition ?

2 what is a monopoly ?

perfect competition & monopolies

3 why and how does a government intervene in a natural monopoly?

Economics 3.2 Demonstrate understanding of the efficiency of different market structures using marginal analysis

Achievement Criteria:

Achievement	Achievement with Merit	Achievement with Excellence
<ul style="list-style-type: none"> Demonstrate understanding of the efficiency of different market structures using marginal analysis. 	<ul style="list-style-type: none"> Demonstrate in-depth understanding of the efficiency of different market structures using marginal analysis. 	<ul style="list-style-type: none"> Demonstrate comprehensive understanding of the efficiency of different market structures using marginal analysis.

Explanation of Achievement Criteria:

Achievement ... demonstrating understanding involves:

- providing an explanation of
 - pricing and output decisions for a perfectly competitive and/or monopolist firms using marginal analysis
 - the efficiency of a market structure
 - the impact of a change in a market on the short and/or long run pricing and/or output decisions of a firm using marginal analysis
 - a government policy to improve the efficiency of a monopoly market
- using an economic model(s) to illustrate concepts relating to the efficiency of different market structures.

Achievement with Merit ... demonstrating **in-depth** understanding involves:

- providing a detailed explanation of:
 - pricing and output decisions for a perfectly competitive and/or monopolist firms using marginal analysis
 - the efficiency of a market structure
 - the impact of a change in a market on the short and/or long run pricing and/or output decisions of a firm using marginal analysis
 - a government policy to improve the efficiency of a monopoly market
- using an economic model(s) to illustrate **complex** concepts **and/or support detailed explanations** relating to the efficiency of different market structures.

Achievement with Excellence ... demonstrating **comprehensive** understanding involves:

- comparing and/or contrasting**
 - the efficiency of market structures
 - impact of a change in a market on the short and long run pricing and/or output decisions of a firm using marginal analysis
 - the effectiveness** of a government policy to improve the efficiency of a monopoly market
- integrating an economic model(s) into explanations** relating to the efficiency of different market structures.

Other Explanatory Notes:

Efficiency refers to allocative efficiency of market equilibrium which occurs when the sum of consumer and producer surpluses are maximised (so 'total surpluses' are maximised). This includes recognising that deadweight loss indicates a market is allocatively inefficient.

A **market structure** refers to monopolies (including natural monopoly) and perfectly competitive firms. This may include the distinguishing features of monopoly and/or perfectly competitive markets.

Marginal analysis refers to using marginal revenue and marginal cost to determine the output and pricing decisions of firms. This includes demonstrating:

- that perfectly competitive firms operate at the profit maximising output where $P(=MR)=MC$ and are allocatively efficient; and/or
- that monopoly firms operate at the profit maximising output where $MR=MC$ but are allocatively inefficient.