

AQA Economics AS-level **Microeconomics**

Topic 4: Competitive and Concentrated Markets

4.5 The competitive market process

Notes



- 📖 Firms do not just compete on price. Firms can try and distinguish their products and gain market share using **non-price competition**.

- 📖 Firms might also aim to:
 - **Improve products:** Improving the quality of the product, or innovating to keep it up to date with the latest technologies, will mean the product remains competitive in the market.
 - **Reduce costs:** By reducing costs, new firms will not be able to compete on price terms with existing firms, so there will be less competition in the market. This also means the firm is being more productively efficient.
 - **Improve the quality of the service provided:** This is particularly important in the service industry, such as with banking. Consumers are likely to leave banks which do not provide them with good customer service. Now, many employers have customer service as one of their areas of focus.

- 📖 Firms might compete vigorously with each other, but monopoly power could lead to consumers being exploited.

- 📖 They could be charged high prices, because consumers have little choice where to purchase their goods and services, since there are so few firms in the market. Consumer surplus falls.

