Definitions and Concepts for AQA Economics AS-level

Paper 1: Microeconomics

Topic 4 - Competitive and Concentrated Markets

Artificial barrier to entry: Barriers to market entry that are man-made, i.e., non-natural.

Collusion: Illegal cooperation between multiple firms, forming a cartel..

Concentrated market: A market with very few (in its most extreme cases, 1) firms.

Concentration ratio: The total market share of the leading firms in an industry; these firms' output as a percentage of total output.

Entry barrier: Make it impossible/more difficult for firms to enter a market.

Exit barrier: Make it impossible/more difficult for firms to exit a market.

Imperfect competition: Any market structure between the extremes of perfect competition and a pure monopoly.

Innovation: Improving upon an existing product or process.

Invention: Creation of a new product or process.

Limit pricing: Lowering the price of a good or service to around average cost, creating an artificial barrier to entry.

Market share maximisation: When a firm maximises their percentage share of the market in which it sells its product.

Market structure: The characteristics of a market.

Monopoly power: The ability of a firm to be a price maker rather than a price taker; the ability to set prices.

Natural barrier to entry: Barriers to market entry that are not man-made.

Natural monopoly: When the ideal number of firms in an industry is 1.

Oligopoly: Market dominated by a few firms.

Patent: Government legislation protecting a firm's right to be the sole producer of a good.

Predatory pricing: Temporarily lowering a good's price below average cost, creating an artificial barrier to entry.

Price competition: Reducing the price of a product, thus stripping demand from competitors.

Price maker: A firm with monopoly power; the ability to set prices.

Price taker: A firm that passively accepts the market price, set by forces beyond the firm's control.

Product differentiation: Differences between multiple similar goods and services.

Profit maximisation: Occurs where the positive difference between total revenue and total costs is at its highest.

Pure monopoly: Only one firm in a market.

Sales maximisation: When sales revenue is at its highest.