OCR Economics A-level

Microeconomics

Topic 4 – Market Structures

Definitions and Concepts

4.1 – Perfect competition

Perfect competition - A market with many buyers and sellers selling homogenous goods with perfect information and freedom of entry and exit.

4.2 – Monopoly

Dynamic efficiency - Efficiency in the long run; concerned with new technology and increases in productivity which causes efficiency to increase over a period of time.

Monopoly – A single seller in the market.

Natural monopoly - Where economies of scale are so large that not even a single producer is able to fully exploit them; it is more efficient for there to be a monopoly than many sellers.

Price discrimination - When a monopolist charges different groups of consumers different prices for the same good or service.

X-inefficiency - When firms produce at a cost above the AC curve.

4.3 – Monopolistic competition

Monopolistic competition - Where there are a large number of buyers and sellers who are relatively small and act independently, selling non-homogeneous goods.

4.4 – Oligopoly

Collusion - Occurs when firms agree to work together, for example by setting a price or fixing the quantity they produce.

Concentration ratio - The combined market share of the few top firms in a market.

Game theory - Used to predict the outcome of a decision made by one firm, when it has incomplete information about the other firm.

Interdependent - The actions of one firm directly affects another firm.

Non-collusive oligopoly - When firms in an oligopoly compete against each other, rather than making agreements to reduce competition.

Non-price competition - When firms compete on factors other than price, for example customer service or quality; they aim to increase the loyalty to the brand which makes demand more inelastic.

Oligopoly - Where a few firms dominate the market and have the majority of market share, they act interdependently.

Overt collusion - Collusion where firms come to a formal agreement, for example a cartel.
Tacit collusion - Collusion where there is no formal agreement, such as price leadership.

4.5 – Contestable markets

Contestable market - When there is the threat of new entrants into the market, forcing firms to be efficient.

Perfectly contestable market - A market with no barriers to entry, where a new firm can easily enter and compete against incumbent firms completely equally.