

## Revision Worksheet Answers

### A2 Economics

# Answer: Oligopoly

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# WORKSHEET ..Answer..

Revision Topic : Market Structures : Oligopoly

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## Answers to Multiple Choice Questions

### Question 1

Correct Answer E (1 mark)

Answer Guide :

Explanation of reduced numbers of firms or increasing market concentration, or explanation of at least one difference between perfect competition and oligopoly (1 mark). Reasons why this might lead to non-price competition e.g. reference to price collusion, kinked demand curve etc (2 marks). Also award 1 mark for an appropriate example.

### Question 2

Correct Answer A (1 mark)

Answer Guide :

Definition of cost-plus pricing (1 mark). Diagram or written explanation that with flat AC a constant mark up is a possible strategy for tacit collusion for a firm worried about possible price wars (2 marks). Also award: diagram showing flat AC (1 mark)

### Question 3

Correct Answer A (1 mark)

Answer Guide :

Definition of oligopoly (1 mark). Explanation of tacit collusion (1 mark) Analysis of kinked demand curve or game theory (up to 2 marks) Recognition that tacit collusion may be difficult to prove (1 mark)

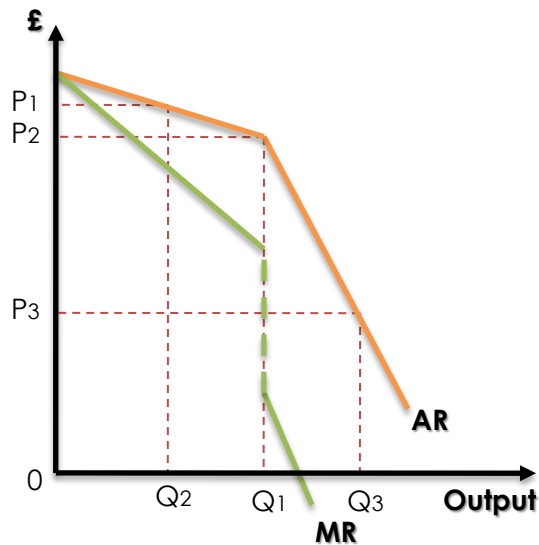
### Question 4

Correct Answer A (1 mark)

Answer Guide :

Characteristic of oligopoly (few sellers, many buyers/large scale industry, dominated by a few firms, price rigidity) (1 mark) Since demand is inelastic, a price cut will cause

total revenue to fall (1 mark) A price cut would result in a price war and hence demand is inelastic (1 mark) Diagram of kinked-demand curve, depicting a fall in revenue as price is cut (1 mark).



Example of non-price competition (1 mark)

## Question 5

Correct Answer B (1 mark)

Answer Guide :

Definition of oligopoly or non-price competition (1 mark)

Explanation of a price fall when demand is price-inelastic will lead to a fall in total revenue (2 marks) Example of non-price competition applied to soap powder (1 mark)

## Question 6

Correct Answer A (1 mark)

Answer Guide :

Definition of oligopoly (e.g. a few large firms in the industry) (1 mark) Correct

definition of concentration ratio (e.g. reference to market domination) (1 mark)

Calculation of a 3 (53%) or 4 (64%) or 5 (75%) firm concentration ratio for the digital camera market (1 mark) or other use of relevant data (1 mark).

## Question 7

Correct Answer D (1 mark)

Answer Guide :

Definition/explanation of oligopoly (e.g. few sellers, many buyers/market dominated by a few large firms) (1 mark) Calculation of concentration ratio (1 mark) Example of

interdependency e.g. If IBM cuts price/increases output of computer servers the other firms may follow for fear of losing market share/possibility of collusion (1 mark).

Also award: IBM or Hewlett Packard have more than 25% market share and so may be regarded as having monopoly power (1 mark). Also accept duopoly (1 mark)

Award a maximum of 2 marks for explanation of market structure.