

## Revision Worksheet Answers

### A2 Economics

# Answer: Market Concentration

Worksheet Answers by: Apsara Sumanasiri

Student Name : .....

Date: .....

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# WORKSHEET ..Answer..

Revision Topic : Market Concentration

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## Answers to Multiple Choice Questions

### Question 1

Correct Answer D (1 mark)

Answer Guide :

Explicit reference to data: Scottish and Newcastle already has over 26% market share, or the combined share is 49.4% (1 mark), thus qualifying its merger activities for investigation by the Competition Commission (1 mark) because over the threshold of 25% (1 mark). [The three firm concentration ratio is 63.9%].

### Question 2

Correct Answer C (1 mark)

Answer Guide :

Understanding of concentration - high market share by the top few banks (1 mark). Cartels as the collusive agreements to make extra profit (1 mark) link between high market concentration and ease of putting cartels into effect (1 mark). [A, B, D, E suggest that the industry could be *competitive*].

### Question 3

Correct Answer A (1 mark)

Answer Guide :

Definition or explanation of market concentration in terms of percentage share of sales. (1 mark). High concentration ratio means that a few firms dominate the market (1 mark) correct calculation: two, three or four firm concentration ratio for the ice cream market (76%, 86%, 92% respectively). (1 mark)

### Question 4

Correct Answer C (1 mark)

**Answer Guide :**

Explanation of collusion (1 mark). Explanation of high concentration ratio which may be in terms of oligopoly or 'few firms' (1 mark). Relation between the two e.g. in terms of the interdependence when there are few firms, easier to manage the secrecy etc (1 mark)

## **Question 5**

Correct Answer C (1 mark)

**Answer Guide :**

Definition of concentration ratio (1 mark) Understanding that this means that the largest firms have got larger relative to the market. E.g. reference to move to oligopoly (1 mark), easier for firms to collude and adopt unspoken price agreements (1 mark). Also award: Diagram of kinked demand curve (1 mark)

## **Question 6**

Correct Answer C (1 mark)

**Answer Guide :**

Definition of concentration ratio (1 mark) Calculation of ratio for 2, 3 or 4 firms (1 mark). Understanding of 'high' : a small number of firms dominate the industry (1 mark).

## **Question 7**

Correct Answer E (1 mark)

**Answer Guide :**

Explanation of concentration ratio (the combined market share of the x largest firms) (1 mark) Identification that market structure is oligopoly (1 mark) Application to data, for example, four-firm concentration ratio increased from 66% in 1998 to 76% in 2008 (1 + 1) OR calculation of increase in market concentration of 10% (1 mark)

## **Question 8**

Correct Answer B (1 mark)

**Answer Guide :**

Definition of concentration ratio (1 mark): the concentration ratio is the market share of the largest three firms in the market. Calculation of concentration ratio for three leading firms and reference to data (2 marks)

## **Question 9**

**Correct Answer E (1 mark)**

### **Answer Guide :**

Definition of concentration ratio e.g. the combined market share of the ...largest firms in the industry **(1 mark)**. 3-firm concentration ratio in 1999 is 78.55% **(1 mark)** and in 2006 76.19% **(1 mark)**.