

Revision Worksheet Answers

A2 Economics

Answer: Monopolistic Competition

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WORKSHEET ..Answer..

Revision Topic : Market Structures : Monopolistic Competition

Question 1

Correct Answer B (1 mark)

Answer Guide :

Supernormal profits will be competed away because there are no barriers to entry (1 mark), however, products are differentiated, i.e. demand curve slopes downwards (1 mark) this implies that price will remain above marginal cost even in long-run equilibrium. This mark can also be earned if the candidate provides a correct diagram (1 mark).

Question 2

Correct Answer C (1 mark)

Answer Guide :

The explanation may be in terms of a diagram or written explanation. 1 mark for a correct diagram of long run equilibrium with appropriately labeled axes and lines. (1 mark for why not allocatively efficient ($P > MC$) and 1 mark for why not productively efficient (not min ATC).

Question 3

Correct Answer D (1 mark)

Answer Guide :

Product differentiation assumption. (1 mark) Any other assumption of the mode. (1 marks). Application to hairdressing e.g. local advertising, most high streets have competition, customer services differences (1 mark)

Question 4

Correct Answer E (1 mark)

Answer Guide :

Relevant diagram (1 mark). Explanation or indication on diagram of resulting productive inefficiency (1 mark). Explanation of only normal profit, or statement that $AR=AC$ (1 mark). Also award definition of monopolistic competition (1 mark)

Question 5

Correct Answer B (1 mark)

Answer Guide :

Diagram of firm in monopolistic competition long-run equilibrium up to 2 marks.

Recognition of allocative efficiency as price equals marginal cost (1 mark) and the firm is not allocatively efficient as price exceeds marginal cost (1 mark). Explanation of downward sloping demand curve (1 mark)

Question 6

Correct Answer A (1 mark)

Answer Guide :

Wide range of menus is an example of product differentiation (1 mark) This could lead to more sales / profits (1 mark). Customer loyalty enables restaurant to keep some customers even when raising price or facing stiff competition (1 mark) Also award for one other characteristic of a monopolistically competitive firm or for diagram (short-run or long-run) (1 mark)

Question 7

Correct Answer B (1 mark)

Answer Guide :

Firm is not productive efficient ($MC = AC$) or is not producing at the lowest point on the average cost curve (this could be identified on a diagram) (1 mark). Also award for a correct diagram of long-run equilibrium position for monopolistically competitive firm (1 mark). Only normal profits made since low entry and exit barriers. (1 mark). Firms attempt to differentiate mini cab taxi products, for example, hours opening, location, type of vehicle and women only services (1 mark)

Question 8

Correct Answer D (1 mark)

Answer Guide :

Any three characteristics of monopolistic competition, at least one applied to window cleaning services for full marks for example (1 + 1 +1 mark): Low entry and exit barriers - just need bucket, sponge, car shampoo. Supernormal profits in short-run but only normal profits in long run. Many producers and consumers acting independently. Product differentiation - location / hours opening / type of cleaning fluids / dress of personnel. Downward sloping AR curve, some ability to influence market price. Also award a diagram of monopolistically competitive firm in

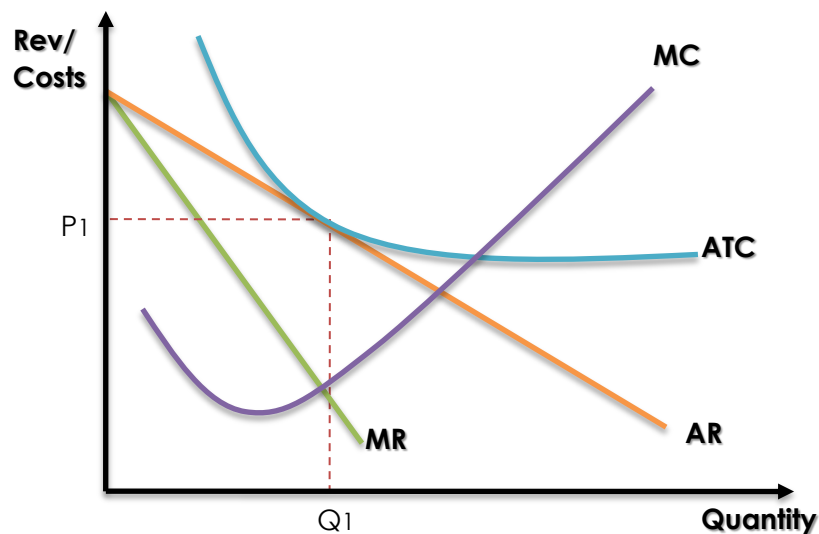
short-run or long-run equilibrium (1 mark) Note: there must be application to window cleaning for full explanation marks.

Question 9

Correct Answer E (1 mark)

Answer Guide :

Low entry and exit barriers mean firms can enter the market and compete the supernormal profits away in long run / so only make supernormal profits in the short run (1 mark) Application - correct diagram of monopolistically competitive firm in long run equilibrium (1 mark).



Application to plumbing services e.g. product differentiation as different kinds of plumbing services such as gas central heating / water / sewerage / reputation of plumber (1 mark) Definition of normal profits (minimum profit required to keep resources in their current use) or ideal that total revenue equals total cost or price equals average cost (1 mark)