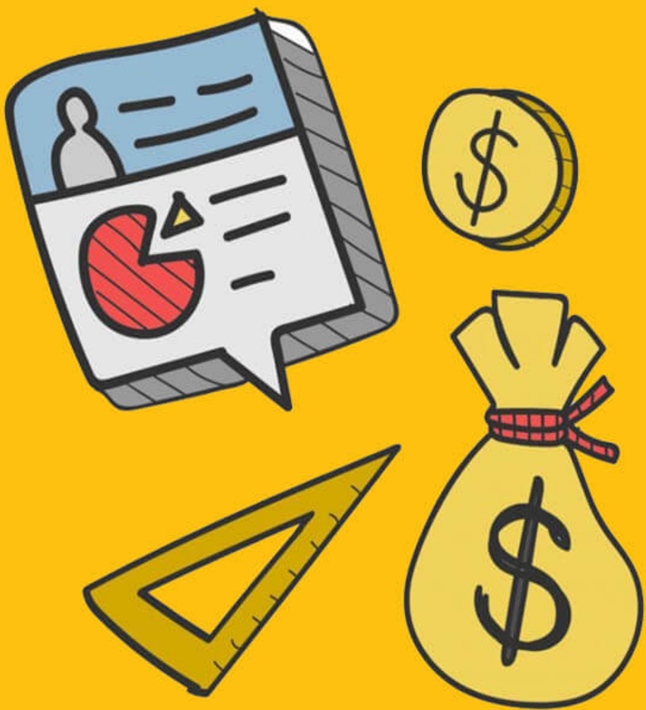
Exam Papers Practice

Market Structures



AQA A Level Economics Revision Notes

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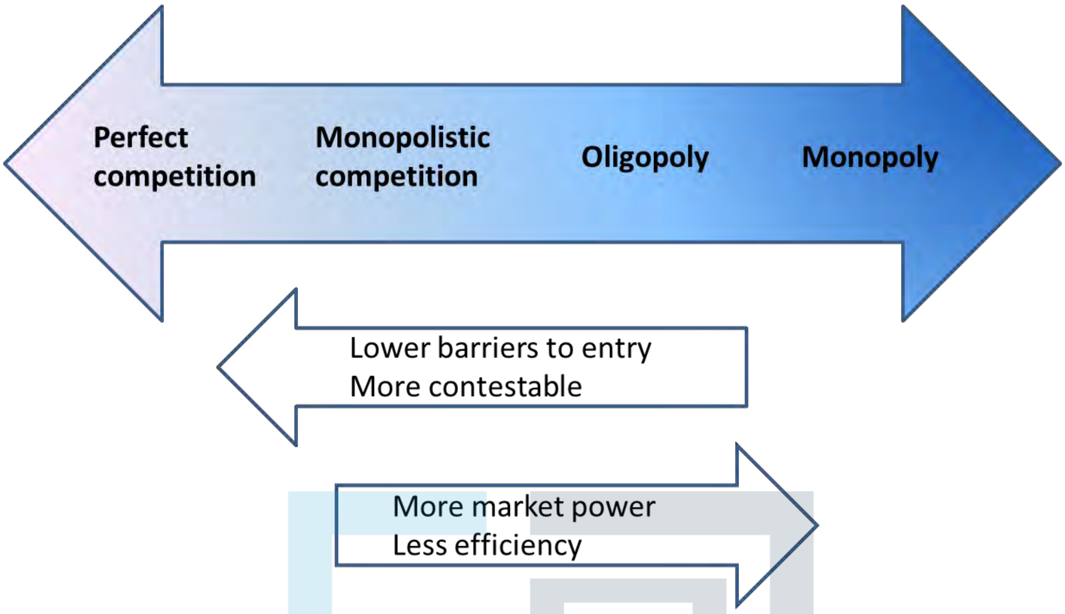
There is a range of market structures. The market structure is concerned with how the market is organised.
The different market structures can be depicted on a spectrum.



Each market structure is characterised by:

- **The number of firms in the market.** The more firms there are, the more competitive the market is. This also includes the extent of competition from abroad.
- **The degree of product differentiation.** The more differentiated the products,the less competitive the market. In a perfectly competitive market, products are homogenous. Products can be differentiated using price, branding and quality. This affects cross price elasticity of demand.
- **Ease of entry into the market.** This is the number and degree of the barriers to entry. Barriers to entry are designed to prevent new firms entering the market profitably. This increases producer surplus. The higher the barriers to entry, the less competitive the market. Examples include:
    - Economies of scale.
    - Brand loyalty, which makes demand more inelastic. It is hard for new firms to gain consumer loyalty, when one firm's brand name is already strong.
    - Controlling the important technologies in the market.
    - Having a strong reputation.

- Backwards vertical integration, which controls supply, means firms can control the price they pay their suppliers. This makes it hard for new firms to compete on price, which is a barrier to entry.
- Barriers to entry can be **structural**, where they arise due to differences in production costs, **strategic**, where firms use different pricing policies, such as undercutting another firm's price, or **statutory,** where patents protect a franchise. An example of this is a television broadcasting licence.