

## Econ exam

6a) A positive statement is a statement that can be tested, it is a provable or disprovable piece of information. Eg, In extract A it states "The government claimed this cap could save households up to £100 a year". A normative statement is a statement based in opinion and is a value judgement. Eg, when the prime minister claims "the market is broken", it is her value judgement, not a provable statement.

6b) This could lead to lower prices for the consumer and thus increased consumer utility. The lower prices can be achieved as the integration of BT and EE would allow for more efficient use of economies and scale as costs could be minimised using their new monopsony power. This monopsony power is evident in Extract B as it states "Controlling 35% of the mobile consumer market".

However on the otherhand BT and EE could use this market dominance and monopoly power to raise prices for the consumer in the long run. And due to the inelastic nature of telecommunication, consumers would be forced to purchase BT and EE's product.



An integration could lead to more innovative and more variety of products for consumers. Due to more profits, as less is spent on advertising when the two firms were in competition, they could invest this into research and development. This could allow for better and more variety of EE and BT mobile phone bundles and services.

However this integration could lead to less innovation as BT and EE's 35% market dominance can restrict new competitors, stopping and disincentivising new start-ups from bringing new ideas into the market, and increasing the choice of the consumers.

6c) One reason why landline-only customers do not switch is due to irrational consumer behavior, in particular brand loyalty. This means despite the consumer not maximising their utility as they spend more, they will not switch telecommunication provider as they trust and hold allegiance to BT. Exhibit C states that many of BT's customers are elderly and have "grown with them for decades" which supports the brand loyalty theory.



On the other hand consumers should not be affected by the costs of brand loyalty as they should be able to trust the regulator, Ofcom, to stop BT exploiting their consumer, which was done in 2017 when Ofcom reduced monthly price from £18.99 to £11.99.

Another reason why landline-only customers do not switch providers is that they suffer from an information gap. We are told from the extract that two thirds of BT's landline-only users are elderly and thus are likely to lack knowledge on how to use technology. This is a hindrance to them as they cannot use price comparison sites or quickly find competitor's prices.

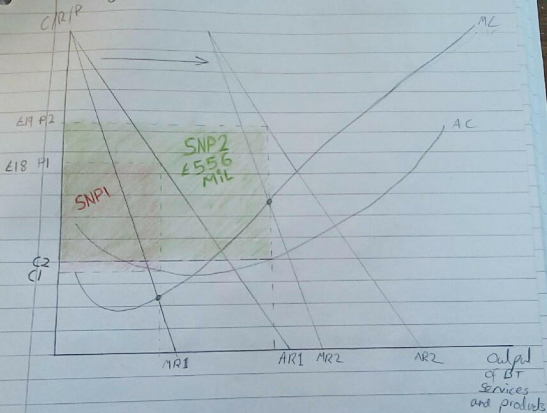
However, this could no longer be an issue as Ofcom have announced that "it is looking at measures to help people shop around for better deals with more confidence" i.e., provide more information to the consumers in order to allow them to make better, more informed choices.



6) a) One possible reason for the rise in BT's profits is an increase in revenue generated, as stated in Extract B, "revenue increased following the integration of the consumer mobile business". An integration means less competition in a market and thus customers of the two prior firms are likely to buy from the new integrated firm, increasing sales and thus revenue.

~~As seen in the diagram, since output of BT's services and products increase due to more market dominance (35%) and the economies of scale that can be gained from a bigger firm, both marginal and average revenue shift to the right increasing SNP from the red area in 2015 (before the integration), to the area in green in the second quarter of 2017, SNP2, which from Extract B, we know is £556 million~~

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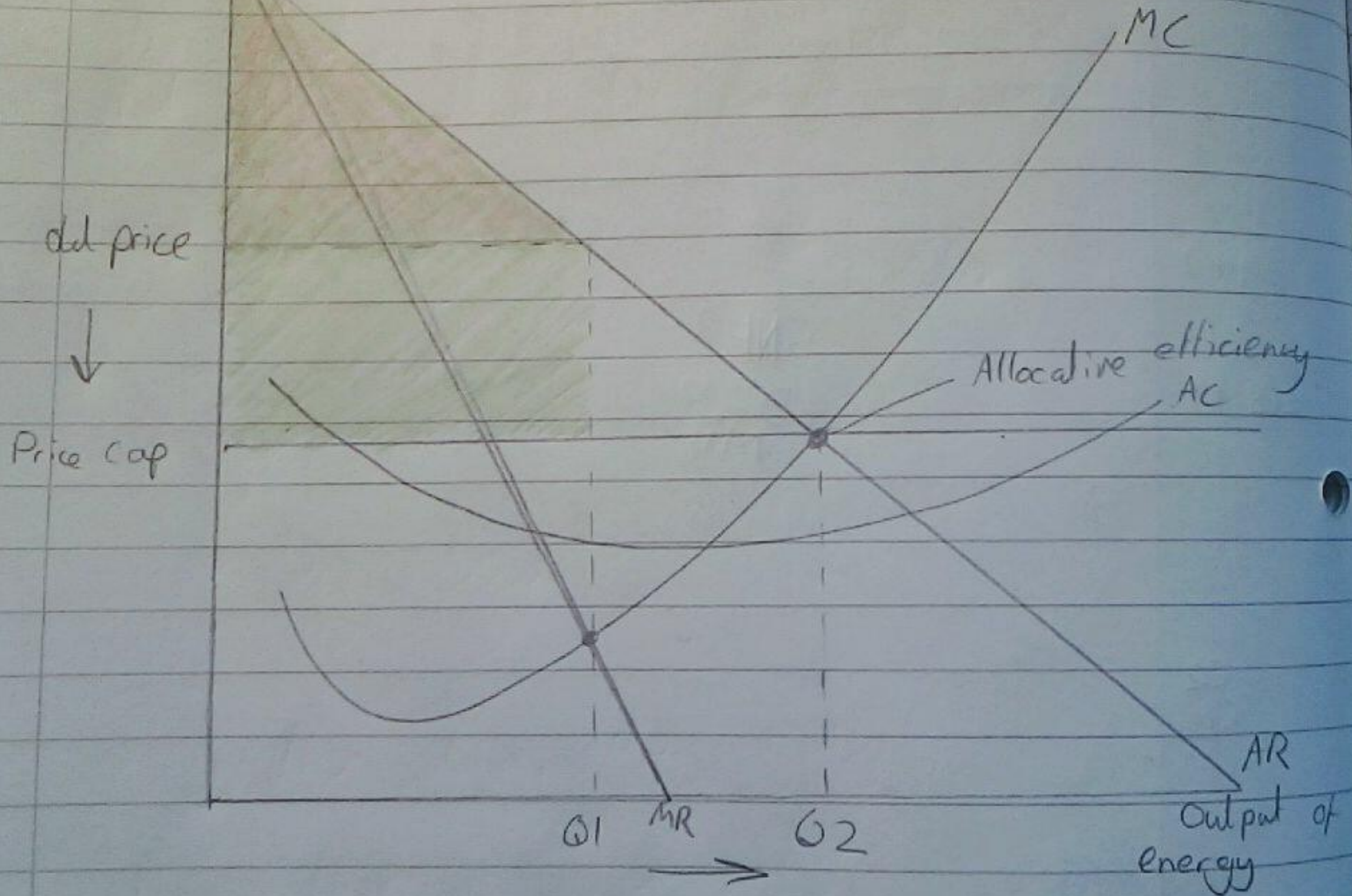
On the other hand the revenue BT has accrued due to its market dominance is likely to decrease in the future due to Ofcom's regulatory measures to halt BT's abuse of its market share, this is in the form of a price cap of £11.99, the lowest it's been in over a decade (Figure 2). This will reduce SNP and make it more difficult to take advantage of economies of scale, assisting in the mitigation of their market dominance.

(b) One policy the government could implement is a price cap affecting the entire energy market. The 11 million households will be protected from "paying hundreds of pounds too much". This could reduce the possibility of tacit collusion between the Big Six UK energy suppliers and "offer fairer prices for millions of loyal customers". As seen in the graph, as the old price of energy is reduced from "old price" to "price cap" as the Big Six are forced to switch from a profit maximisation point to an allocatively efficient point, benefitting the consumer, in addition the consumer surplus has <sup>increased</sup> ~~gone~~ from the red area to the green one after a price cap.

On the other hand a price cap can have unintended consequences for the consumer, as Michael Lewis CEO of Eon said. It can be argued that utilities require high profits to maintain expensive infrastructure and build new ones which require giant sunk costs. If the Big Six do not maintain profits they lack the ability to make energy cheaper in the long run due to the inability to afford R&D. Overall this could harm consumers rather than protect them.



C/R





Another policy the government could implement is a way of providing the consumer with more information about other telecommunications firm's prices, this could be done through advertisements focused towards the elderly. This would bridge the information gap and allow consumers to make more informed decisions, and thus protect them from firms abuse of asymmetric information and allowing them to maximise their utility. Extract C claims Ofcom is "looking" at measures to help people shop around for better deals, such as providing a way to easily compare different provider's prices, bundles, deals and offers.

However the description Ofcom provides suggests some sort of online tool or calculator, similar to the ones they have done before. This may not be effective as a large portion of BT, and other providers, are elderly and thus may not have the knowledge or ability to use such a tool, rendering the government spending required to develop such a tool redundant and wasted.