**3.3 Market Structure and Contestability**

**1 Efficiency**

a) The concepts of:

• allocative efficiency

• productive efficiency

• dynamic efficiency

• X-inefficiency

• efficiency/inefficiency in different market structures.

**2 Concentration ratio**

a) Calculation of n-firm concentration ratios.

b) The significance of concentration ratios.

**3 Perfect competition**

a) Assumptions of perfect competition.

b) Profit-maximising equilibrium in the short run and long run.

c) The short-run shutdown point.

d) Productive and allocative efficiency in the short run and long run.

**4 Monopolistic competition**

a) Assumptions of monopolistic competition.

b) Types of product differentiation:

• physical – product features

• marketing – advertising, packaging

• distribution – shop, online, telephone.

c) Profit-maximising equilibrium in the short run and long run.

d) Productive and allocative efficiency in the short run and long run.

**5 Oligopoly**

a) Assumptions of oligopoly.

b) Barriers to entry and exit:

• economies of scale

• limit pricing

• patents

• branding

• sunk costs

• legal.

c) Interdependence of firms:

• simple game theory – two firm/two outcome model

• reasons for collusive and non-collusive behaviour

• cartels

• price leadership

• price wars.

d) Costs and benefits of collusion to producers, consumers, workers and governments.

e) Price competition:

• price wars

• predatory pricing

• limit pricing.

f) Non-price competition:

• advertising and branding

• quality

• endorsement

• product placement

• after-sales service.

g) Costs and benefits of price and non-price competition to firms, consumers, employees and suppliers.

**6 Monopoly**

a) Assumptions of monopoly.

b) Barriers to entry and exit.

c) Profit-maximising equilibrium.

d) Costs and benefits of monopoly to firms and consumers.

e) The concept of ‘natural monopoly’ and its implications.

f) Conditions necessary for third-degree price discrimination.

g) Costs and benefits of price discrimination to firms and consumers.

h) Productive, allocative and dynamic efficiency.

**7 Monopsony**

a) Assumptions and conditions for a monopsony to operate.

b) Costs and benefits of a monopsony to firms, consumers and

employees.

**8 Contestability**

a) Characteristics of contestable markets.

b) Implications of contestable markets for behaviour of firms on:

• profitability

• pricing decisions (limit pricing).

c) Costs and benefits of contestability for firms and consumers.

d) The significance of sunk costs for contestability.