

Tutorial 3 – Market Structure

1. Read the article: “Supermarket wars are gaining traction” from *The Sydney Morning Herald*. Now consider what types of barriers to entry exist in the Australian supermarket industry?
2. Read the paper by the Grattan Institute which discusses competition in Australia (<https://grattan.edu.au/report/competition-in-the-australian-economy/>).

Discuss what has happened to competition among supermarkets in Australia in recent years. What barriers may there be to strong competition in the that industry? Are any developments identified that may be associated with greater competition?

3. What is market power? Market power is usually associated with some type of barrier to entry. Identify different types of barriers to entry and give examples of each.
4. In a model of Cournot oligopoly we discussed in class, we argued that the reaction functions or the best response curves for each firm slope downwards. Give an intuitive explanation of why that might be the case.

The standard Cournot oligopoly with two firms has a solution where the amount produced is more than in a monopoly but less than compared to a competitive market. As the number of firms increase, how might that results change? Why?

5. Discuss why in a model of Bertrand competition with differentiated products the best response curves are upward sloping.
6. Define what is meant by a strategic substitute. What is meant by a ‘tough commitment and a soft commitment’?