PFL Academy

Teacher Guide: Chapter 51 — Market Structures and Consumer Choice

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet	L-48 Economic Systems, L-50 Supply & Demand

LESSON FLOW

5 min — **THE CHALLENGE**

- Read Eliana's scenario aloud or have students read silently.
- Discussion prompt: "Why do you think the electric company can charge so much when coffee shops compete for your business?"
- Connect to prior knowledge: Remind students of supply/demand from L-50.

10 min — **CORE CONCEPTS**

- Review the 5 key terms—emphasize the progression from competition to monopoly.
- Draw the "Market Structure Spectrum" on board: Perfect Competition → Monopolistic → Oligopoly → Monopoly
- Quick check: Ask for real-world examples of each structure students encounter.

25-30 min — **APPLY IT**

- **Part A (12 min):** Individual or pairs. Circulate to check market structure identification and strategy reasoning.
- **Part B (8 min):** Consumer Surplus Calculations. Ensure students multiply correctly for annual and 5-year costs.
- **Part C (5-10 min):** Personal Market Analysis. Encourage honest expense assessment and practical strategies.

10 min — **CHECK YOUR UNDERSTANDING**

- Complete in class or assign as homework.
- Review Q3 (Calculation) and Q5 (Reflection) to assess both mathematical and conceptual understanding.
- Use Q4 (DeShawn scenario) to discuss oligopoly negotiation strategies.

DIFFERENTIATION

Support

- Provide visual aid showing the 4 market structures with icons (many sellers → few → one).
- Walk through Scenario 1 (gasoline) together before independent work.
- Pair struggling students with peers for Part A.
- Pre-fill the "Number of Sellers" column in Part C for support students.

Extension

- Research actual market concentration (HHI index) for an industry of choice.
- Calculate the percentage of monthly budget spent in non-competitive markets.
- Analyze a recent merger or antitrust case and predict consumer impact.
- Write negotiation scripts for oligopoly services (phone, internet, insurance).

ANSWER KEY

Part A: Market Structure Identification

Scenario 1 (Gasoline): PERFECT COMPETITION. Many sellers, identical product (gas is gas), prices nearly identical, consumers can easily switch. Strategy: Shop by price alone, use apps to find cheapest station.

Scenario 2 (Cell Phones): OLIGOPOLY. Few dominant sellers (3-4 carriers), high barriers to entry (billions for infrastructure), similar prices across providers, prices move together. Strategy: Compare all options, negotiate at contract renewal, threaten to switch.

Scenario 3 (Coffee Shops): MONOPOLISTIC COMPETITION. Many sellers, differentiated products (brand, atmosphere, location), some pricing power. Strategy: Decide what you value, ignore marketing hype, try alternatives, price shop.

Scenario 4 (Electricity): MONOPOLY. Single seller, no substitutes available, very high barriers (infrastructure costs), regulated by government. Strategy: Minimize consumption, understand rate tiers, seek long-term substitutes (solar), advocate for regulation.

Part B: Consumer Surplus Comparison

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Annual Costs:
• Perfect Competition: $8 × 12 = $96
• Oligopoly: $15 × 12 = $180
• Monopoly: $25 × 12 = $300

5-Year Costs:
• Perfect Competition: $96 × 5 = $480
• Oligopoly: $180 × 5 = $900
• Monopoly: $300 × 5 = $1,500
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5. $1,500 − $480 = **$1,020 more** in a monopoly market over 5 years.

6. A monopoly can charge $25/month because consumers have no alternatives—there's no competition to drive prices down. The monopolist faces the entire market demand curve and can set price where profit is maximized.

7. Accept any two: (1) Rotate between services monthly (subscribe/cancel), (2) Share passwords (where legally permitted), (3) Use free ad-supported tiers, (4) Bundle services for discounts, (5) Wait for promotional periods.

Part C: Personal Market Analysis

Responses will vary. Look for: realistic expense identification, appropriate market structure classification with reasoning, and honest assessment of consumer power (monopolies = Low power, competitive markets = High power).

Check Your Understanding

1. B (Monopolistic competition)

2. In perfect competition, many sellers compete on price alone, driving prices to the lowest sustainable level—consumers pay minimum and keep maximum surplus. In monopoly, the single seller has complete pricing power and can charge much higher prices, transferring surplus from consumers to the monopolist.

3. ($55 − $30) = $25 savings/month. $25 × 12 = **$300 saved per year.**

4. OLIGOPOLY (few sellers, similar prices, high barriers). Strategy: Negotiate by threatening to switch, ask for retention discounts, compare all carriers thoroughly, time switch for promotional periods, consider MVNOs (smaller carriers using major networks) for better rates.

5. *Reflection should include: specific purchase identified, correct market structure classification, and concrete strategy for improvement (negotiation, shopping around, timing, etc.).*

COMMON MISCONCEPTIONS

Misconception	Clarification
"Monopolies are always illegal."	Natural monopolies (utilities) and legal monopolies (patents) are legal. Only anticompetitive behavior to gain or maintain monopoly power is illegal.
"More sellers always means lower prices."	Generally true, but monopolistic competition shows that differentiation allows price premiums even with many sellers. A branded product can cost 3x a generic.
"I can't do anything about monopoly prices."	While you can't change the price, you can reduce consumption, use off-peak pricing, seek substitutes (streaming vs. cable), or advocate for regulation.
"Oligopolies compete fiercely on price."	Oligopolies often engage in tacit price coordination. When all 3 carriers charge similar rates, it benefits all firms to keep prices high.