Chapter 8
This chapter will help you answer the following questions.
1. **Why do you think the global beer industry is dominated by large brewers such as AB InBev?**
   Because of economies of scale; able to drive down unit costs through scale
2. **Why might AB InBev have wanted to join with SAB Miller?**
   To access the brands; for synergy; for the benefits of scale
3. **What might be the possible consequences for the consumers of having a few large businesses dominate the industry**?
   May lead to economics of scale and lower prices due to lower unit costs; may lead to more profits leading to more investment in innovation. However could lead to monopoly power and prices being pushed up and less innovation as less competitive pressure
4. **Why might craft brewing becoming more popular?**
   Changing tastes- a desire for something different; and perhaps willing to pay more
5. **How can craft breweries survive against the large breweries?**
   If the benefits justify higher prices they can survive even if they do not have the same low unit costs as the bigger players

Complete the table.

Original market size (£)	New market size (£)	Market growth (%)
10,000	12,000	20%
60,000	62,000	3.3%
500,000	500,000	0%
500,000	490,000	−2%

Market growth
20%
3.33%
0%
-2%

Sales of one business (£)	Total market size (£)	Market share (%)
10,000	120,000	8.33%
60,000	620,000	9.68%

(10000/120000)*100 =8.33%
(60,000/620,000)*100= 9.68%

Tesco (27.8%)
Sainsbury's (15.8%)
Asda (15.3%)
Morrisons (10.4%)
Aldi (7%)
Co-op (6.3%)
Lidl (5.2%)
Waitrose (5.1%)
Iceland (2.1%)
Ocado (1.4%)

Questions
1. **What is the three-firm concentration ratio for this industry?**
    27.8+15.8+15.3= 58.9%
2. **What is the four-firm concentration ratio for this industry?**
    69.3%
3. **What do you think is the significance of your results?**
    This industry is an oligopoly; It is dominated by a few firms. This means they may compete aggressively to won market share and/or they may collude in some areas to enable higher prices.

8.1 Quick check
For each of the following statements, say whether it is true or false.
a. If the market share of a business increases it must be selling more. FALSE; not necessarily
b. A five-firm concentration ratio of 20% means each business has a 20% market share. FALSE
c. The size of a market can be measured in terms of volume or value. TRUE
d. If the market is growing, the market share of your business will fall. FALSE; not necessarily

Question
What impact do you think more competition will have on the food delivery business?
Incentive to innovate; greater focus on customer service; may mean lower profits margins and this may mean less funds for investment

Business case questions
1. **Why is it important for Alphabet to define its competitors?**
    So that it knows what to watch and who to defend itself against.
2. **Why does Alphabet have so many competitors?**
    Because it operates in many different markets (both in terms of product and geography)
3. **What is the impact of competition on Alphabet?**
    Create incentive to innovate; may erode profits.

8.2 Quick check

> **For each of the following statements, say whether it is true or false.**
> **In perfect competition,**
>> a. there are many buyers and sellers. TRUE
>> b. each business sells differentiated products. FALSE
>> c. it is difficult for businesses to enter and exit the market. FALSE
>> d. each business is a price maker. FALSE

Questions

- **What do you think we learn about the benefits of competition from the Uber example?**
  Competition can lead to innovation and an incentive by existing businesses to improve what they do
- **What do you think we learn about the dangers of competition from the Uber example?**
  Can threaten existing providers; standards may not be the same as same as existing providers

8.3 Quick check

> **For each of the following statements, say whether it is true or false.**
> **Barriers to entry may include:**
>> a. Patents. TRUE
>> b. The introduction of trade restrictions on foreign competition. TRUE
>> c. Limited brand loyalty. FALSE
>> d. Apathy. TRUE

Question

- **Is Airbnb a good thing?**
  Depends who you ask; it has brought innovation in the travel industry; it has helped more people to travel; it has created challenges for hotels and established businesses.

Questions

- **What do you think are the barriers to entry into the cymbal market?**
  Well-known brand name; trusted expertise
- **Do you think Zildjan is likely to continue to dominate the cymbal industry?**
  Likely to be new technology at some point; if profits are high enough it will attract entry

8.2 DOING THE BUSINESS MATHS

Price (£)	Quantity (units)	Total revenue (£)	Marginal revenue (£)	Marginal cost (£)	Would a profit maximizer produce this unit or not?
20	4	80	n/a	n/a	n/a
19	5	95	15	3	Yes
17	6	102	7	7	Yes
15	7	105	3	10	No
13	8	104	−1	12	No
11	9	99	−5	17	No
9	10	90	−9	20	No

Price	TR	MR	Produce
20	80	n/a	y
19	95	15	y
17	102	7	y
15	105	3	n
13	104	-1	n
11	99	-5	n
9	90	-9	n

Questions

- **Why do you think Google's power might need to be controlled?**
  May mean customers are misled and directed towards things Google wants you to see or it has been paid to show you rather than genuinely the most useful sites for you
- **What problems might there be in controlling it, do you think?**
  Global business- who regulates it?

8.4 Quick check

For each of the following statements, say whether it is true or false.
In a monopoly

a. There is a single buyer. TRUE
b. Businesses face an upward-sloping demand curve. FALSE
c. Marginal revenue is lower than average revenue. TRUE
d. Profit maximization occurs where marginal revenue equals marginal costs. TRUE

8.6 Quick check

For each of the following statements, say whether it is true or false.

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In monopolistic competition
a. There are many businesses. TRUE
b. Each business is a price taker. FALSE
c. There is freedom of entry and exit. TRUE
d. Normal profits are earned by businesses in the long run. TRUE

Question
Do you think price comparison sites are good for the customer?
May enable them to find lower prices; gives buyers more power in theory, however it depends what the sites show them- may only show those who have paid in which case choice is actually limited; to recover the cost of being listed this might lead to higher prices

8.7 Quick check
- **For each of the following statements, say whether it is true or false.**
- **Price discrimination**
    a. Occurs when different prices are charged for different products. FALSE
    b. Can lead to higher profits than charging a single price. TRUE
    c. Profit-maximizes when total revenues are equal in each market. FALSE
    d. Requires markets to be kept separate to prevent resale. FALSE

End of chapter quick questions
1. **What is the difference between market size and market share?**
    Market size is the total volume or value of sales; market share measures the sales of one brand or product as a percentage of the total market sales
2. **What is the difference between market size and market growth?**
    Market size is the total volume or value of sales;; market growth measures the percentage increase in market sales
3. **Why might managers want their business to become a monopoly?**
    To become a price maker and set prices; gives them control over the market and may allow higher profits
4. **What are the potential dangers of monopolies for consumers?**
    May lead to higher prices and lower quality
5. **Why might managers want to form a cartel?**
    To gain monopoly power
6. **What are examples of barriers to entry?**
    Cost advantages; patents; customer brand loyalty; legal protection
7. **What is the likely effect of barriers to entry on the market price?**
    Likely to increase it due to more monopoly power
8. **What is the difference between collusive and competitive oligopoly?**
9. **How might interdependence in oligopoly affect the decisions that managers might take?**
    Means they may collaborate (collude) or they may compete.
10. **How does the contestability of a market affect the likely returns of a business?**
    Likely to reduce profits; if profits are high competitors come in and compete it away