Chapter 3: Analysing Global Industries

Suggested answers to review questions

1. What is a market?

Students could, quite correctly, describe markets as entities that connect buyers and sellers. However, they should reference the treatment in the chapter of the concepts of market and industry as being interchangeable. They should then go on to discuss the need to define a market through the identification of relevant products, producers and geographical areas.

2. Use your response to Question 1 to assess whether the market for beer is global, regional, or national.

The beer market is not global but fragmented regionally and nationally due to various barriers to entry:

- the costs of transporting a relatively cheap product over long distances;
- the ability of brewers, especially the giant brewers like AB InBev, Heineken and Carlsberg to differentiate their products in the minds of consumers;
- differences in consumer tastes between different types of beer e.g. light beer and dark beer. In Continental Europe lager is popular while in the UK there is a big market for bitter and craft beers. most widely drunk beer in the USA.
- Good students could point out that costs of transport have been falling over time and that the big beer producers deal with the barriers by cross-border take-overs of firms with established brands in their markets.
- Tutors, wishing to extend the discussion could ask students to review their understanding of the concept of cross elasticity of demand. Then students could be asked to discuss the extent to which beer producers face competition from other alcoholic drinks.

3. What are entry barriers and how important are they in:

a.) the car industry?

MOST IMPORTANT BARRIERS	HEIGHT
Economies of scale	High
Product differentiation	High
Excess capacity in developed markets	High

b.) coffee shops?

Entry is relatively easy although product differentiation is likely to be a factor with new entrants facing established brands such as Starbucks.

4. Explain the concept of market power.

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Market power refers to the ability of firms to exercise control over price and output. Firms holding much market power can often exercise a degree of control over customers, competitors, and suppliers. It is measured by the level of market concentration. High levels of concentration usually indicate a lower intensity of competition especially where the market is protected by high barriers to entry.

5. Discuss how oligopolists such as Apple can exploit their market power.

Oligopolists, like Apple, producing consumer products can build and protect their market power by differentiating their products through, the introduction of new products and allied services, the improvement of existing products and services, patenting, and their advertising and promotional campaigns. Apple has very effectively built a reputation for quality products and good design which is reflected in its promotional campaigns and its ability to charge premium prices. It also obliges consumers to take its iTunes and AppStore. This imposes a high switching cost on customers because they fear that they will lose their music.

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