

Candidate 3 evidence

9 a) In oligopolistic markets, a few large firms dominate. These firms are inter-dependent, meaning they anticipate and react to the actions of other firms which influences their pricing strategies. For example, ~~if~~ firms A and B each have 50% market share and make ~~an~~ annual revenue of £100m. If firm A were to reduce the selling price of their good ~~the may~~ their revenue may increase to £150m while B's falls to £30m. (This is because consumers switch to ~~B's~~ A's product as its price is reduced.) In reaction firm B will reduce its price to regain market share and both firms may make revenue of £75m. In this price war, oligopolistic firms must continually lower prices to compete with each other and retain market share. This makes

collusion likely to occur as all firms in the market can maximise revenue by ~~the~~ keeping a fixed price rather than competing.

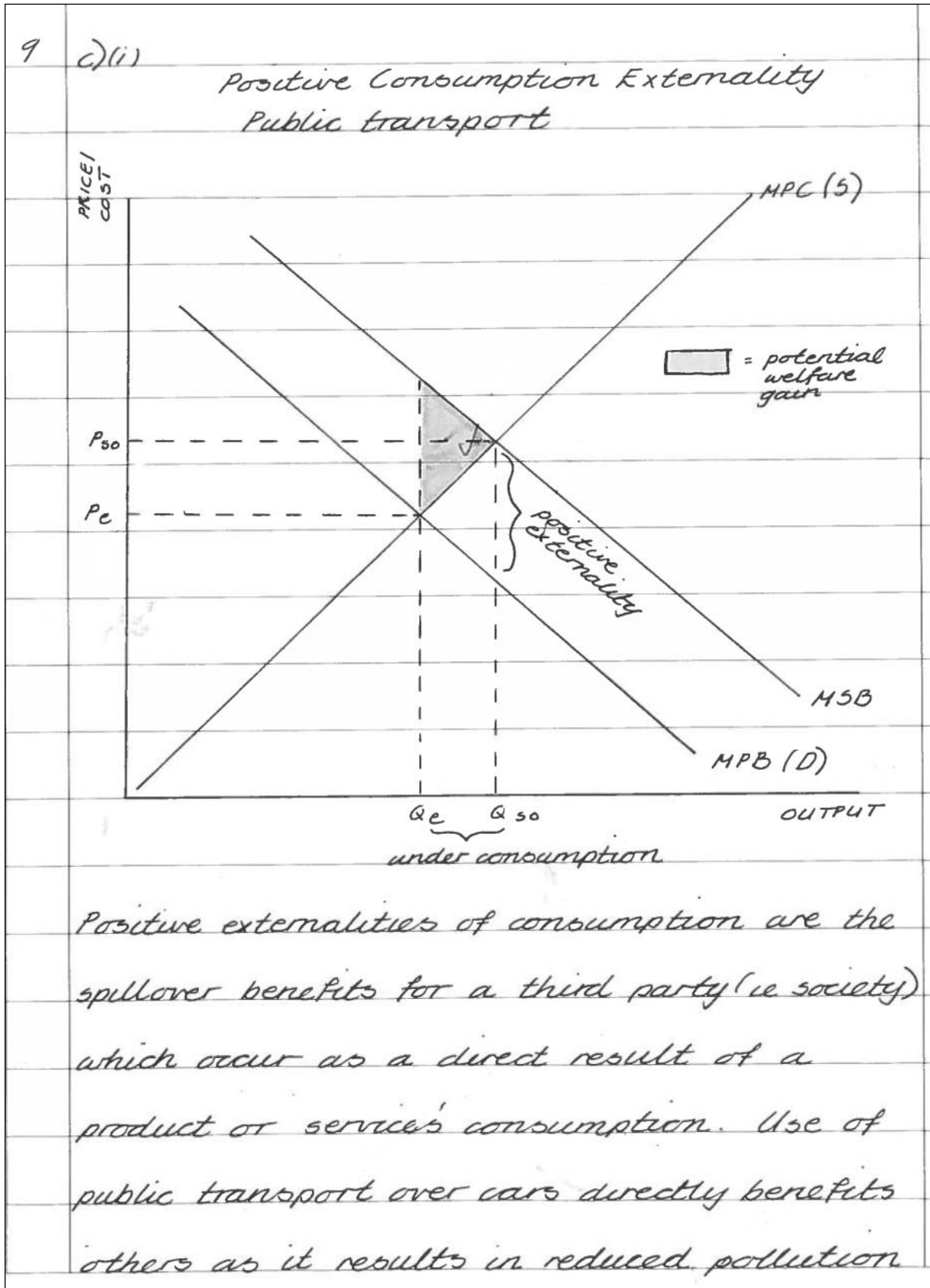
b) Benefits

price wars result in lower consumer prices and allows individuals to retain a greater share of their disposable income. This may allow them to increase their savings or invest. Price wars may result in higher quality products for the consumer as firms in the oligopolistic market try to prevent them switching to a competitor's product.

Costs

Constant fluctuations in prices may be confusing for the consumer and make personal budgeting difficult.

It may also be time consuming to identify which firm's product is cheaper. There are also 'shoe leather costs', ie the cost of shopping around to find the best price. For example ~~super~~ the cost of driving to a supermarket further away to buy a lower priced product may be greater than the saving.



and also reduces road congestion for other drivers.

(ii) The government could introduce subsidies for public transport to reduce its cost and price paid at the point of use. This would increase its demand and encourage more use of ~~the~~ public transport. However this has limitations as it ~~is~~ is difficult to calculate the correct amount to subsidise and this spending may be better used elsewhere.

Government could ~~also~~ increase road tax or fuel excise duty to make the cost of running a car more expensive. This would encourage more people to switch to public transport. They could also extend schemes such as the London congestion charge, again to encourage more public transport use. They could also introduce schemes

to encourage government employees to take public transport or increase education in schools about the harmful effects of vehicle emissions