As a firm grows and expands it becomes difficult for the owner to control and micro manage every aspect of a business activities. In Sole Traders and partnerships the owner will have a lot of power and control.
However, for large firms such as PLCs a firm is owned by shareholders for limited liability,therefore the owner (shareholders) will not have any control over the business and thus they hire managers to work on their behalf.
Managers operate more efficiently than shareholders. Larger firms are often made up of 1000s of shareholders with usually no more than 10%
Institutions often invest in firms such as banks or Pension funds and it would be impractical for them to make decisions as they want to make a profit (ROI) not manage.
This leads to the principal agent problem.

The Principal Agent Problem = When a principle creates an environment in which an agent's incentives and objectives don't align with there's.

The agent makes decisions on behalf of the principle. The problem arises when the agent makes decisions that are not in the interest of the principal.

Managers = Agent (Objective Pay/Bonus/Pension)
Shareholder = Principle (Objective Dividends + profit)

Managers want to maximise their *salaries,their profits, their pension and company car.*
Managers intend to maximise their own utility and manage for a long term to get the most rewards.

Whereas shareholders are interested in profits and profit maximisation, so they get a higher share price and greater dividends. The agent (managers) are not making decisions of Profit Maximisation but of Growth to benefit them (manager income,profit satisficing, perks)

The agent has ulterior motives than the principle. Thus there is a difference in objectives.

Managers tend to buy more assets out of hubris for their reputation and ego in the industry and by holding onto these illiquid assets they're likely to get fringe benefits/ perks off them (firm buys private jet = free flights for managers)

The shareholders (the principle) want to maximise their profits and dividends but are unable to run the business on a day to day basis. The principal hires managers and directors to run the firm as they can't but the shareholders also cannot monitor the behaviour of the agents Perfectly. Because of this there is a degree of Asymmetric information as the agent has more information than the shareholder, the shareholder can't check if their interests are being served.

The agent has a degree of autonomy because of Asymmetric information.

The principle hires the agent because its impractical for owners to observe day to day management of the firm
The Agent makes and runs decisions for them

Preview from Notesale.co.uk
Page 3 of 90

- Share ownership might lead to illegal action to **hike share prices up**
- If a manager is **getting paid a large salary** the likelihood share ownership schemes will work is minimal
- It's obsolete **if the shares aren't accessible to the agent immediately**

Reasons Firms Grow:
- **Higher profits** = private sector aim to max profits, = done by boosting sales revenue via launching new products, entering new markets, takeovers
- **Greater Market share and Power** = Firm grower leads to larger market share = less competition as they become more monopolistic = greater market share means they can influence price and raise and consumers have less Substitutes to switch too = Boosts profits and profit margin (monopsony power)
- **Ecos Of Scale** = operate on a larger scale firms reduce their long run average costs, this allows firms to lower the price becoming more competitive and creating barriers to entry and Improving profit margins
- **Reduce Risk** = Diversification lower risk and the firm is less likely to rely on one product or industry for its profits therefore the firm is less likely to make losses and if it does make losses in one area it will make profits in another
- **Higher Barriers to Entry** = Brand loyalty, start up costs, ecos of scale
- **Divorce of Ownership from control** = managers may bring about growth and create a more efficient and profitable environment
- Survival = no choice to grow in order to survive in the market

Reasons Firms Stay Small:
- **Owners wish to maintain control**
- **Niche marketing and meeting consumers needs** = Luxury products = charge a premium = tailored small scale production = Bespoke goods
- **Personal service** = expected personal input and thus personal experience allows the firm to raise prices because of brand loyalty and if you grow you become less personalised and bespoke. Growing means a loss of control and thus a less personalisation in the consumer experience.
- **Lack of expertise and motivation to expand** = lack the necessary finance to expand, some owners may not want to expand because it means more work, and less leisure (poorer work life balance), managers may satisfice rather than maximise
- **Low barriers to entry and too much competition** = lots of firms = less incentive to grow as excess profits maybe competed away by competition, also if its a highly competitive and you expand you incur costs contrasted to firms who don't and thus lead to a loss in profits
- **Avoid Unwanted Attention** = stay small to avoid unwanted attention via regulatory bodies and competition bodies. Also rival firms won't consider you a rival and tax breakdown for small firms
- **Avoid Diseconomies of scale** = grow to big = suffer diseconomies of scale (communication,motivation,coordination issues) that incur inefficiencies that occur from operating on a large scale and increases LRAC (unit costs rise) and therefore this lowers profit margins and may lead to an increase in price to cover costs. Employing too much ppl.
- **Tax Reasons** = tax breaks for small firms or subsidies for smaller firms
- **Regional monopoly only** = stay small = no cma = Higher price in that area

Preview from Notesale.co.uk
Page 5 of 90

- AC = the same whatever the structure
- MC = the same shape
- AR = horizontal MR = D = Its perfectly elastic, so it can't charge a higher price otherwise it would lose all its customers, it can be lower but there's no incentive to do so because it can sell as much as it wants at market clearing price and that would result in all firms lowering prices.

In perfect competition a firm's only decision is to choose how much to produce at the Equilibrium Price to max profits

Perfect Comp Short Run:
In the short run the AC curve can move. If it goes above the Equilibrium Price the firm is making a loss. And if it's below the firm makes supernormal profit. We can bring down the average costs by lowering wages, New machinery, lower energy prices and make supernormal profit (anything that reduces costs). Revenue is greater than average costs.

Perfect Comp Long Run:
1) In a competitive market business make normal profit in the long run
2) New technology or lower energy prices can cause AC to fall
3) In the short run The firm makes supernormal profit
4) But because of perfect knowledge, low barriers, homogeneous goods, can't influence market price, large numbers of buyers and sellers and you can produce and sell as much as you want at market price, every other firm is able to make supernormal profit and more firms enter the market creating a new long run Equilibrium where the market price falls below average costs and thus all firms make normal profit. There is an Outward Shift in market supply forcing the price down and all firms make where AR = AC.
5) In ceteris paribus **there is no incentive for firms to leave the market or enter**

Preview from Notesale.co.uk
Page 25 of 90

Short run = supernormal profit = firms enter the market because low barriers = increases industry supply and reduces industry price = continue till new equilibrium and firms make normal profit against = more firms in the industry therefore production increases overall but each firm produces less as there is less incentive to produce (lack of supernormal)

Firms enter the market as well

EV:
- Most firms have **some degree of price making power** and not all firms are price takers
- **Differentiation in the real world and brand loyalty**
- There **always information gaps due to the complexity of goods and services** sold especially from the consumer perspective
- **Search costs and information costs** = again no perfect info
- Patents, control of intellectual property is ignored in perfect comp and other barriers to entry

Producer:
More production
Higher profits
Lower prices which increases marekt share

Allocatively Efficient = measures whether resources are allocated to goods and services demanded by consumers
=The optimal distribution of resources (who gets what and are they getting the right amounts + positive externalities) == Resources are allocated in a way that consumers and producers get the maximum possible benefit

- Private Sector = Not Allocatively Efficient as its impossible to improve welfare by reallocating resources = pmaxing, not social optimum
- It occurs when it is impossible to improve overall economic welfare by reallocating resources between industries or markets.

Allocative efficiency is reached when no one can be made better off without making someone else worse off. This is also known as Pareto efficiency. With Pareto's efficiency comes opportunity costs.
market price = marginal cost of supply

Consumers are getting exactly what they want in the right quantities
Max Consumers surplus
High choice
High quality

Producer benefit
Maintain market share cuz they're doing the above
Stay ahead of rivals

Preview from Notesale.co.uk
Page 28 of 90

X Inefficient = Liebenstein argued that, due to **organisational slack resulting from a lack of competitive pressures**, monopolies are always likely to be productively inefficient.

- The firm may be technically inefficient = employing too many workers (over-manning) or investing in machines or software that it rarely uses
- It can be caused by paying managers or workers
- unnecessarily high wages or by buying machinery or capital at unnecessarily high prices.
- Average tota costs are higher than they should be
- Business may be poor at controlling costs = paying too much for its inputs (F.O.Ps).
- It could be complacent in an uncompetitive environment **knowing it can pass on higher costs to customers**
- They may choose to be inefficient because it's very difficult and requires a lot of changes to reduce costs to the absolute minimum and reduce wastage and If there is no incentive to do so due to a lack of competitive pressure then they will choose not to do so

Managerial Complacency As a result of a lack of competition

Dynamic Efficiency = Measures the extent to which various static efficiencies improve over time

Innovation is putting new ideas or approaches into action. Innovation is the commercially successful exploitation of ideas.

- Product Innovation = Changes to the product
- Process Innovation = Changes to production = improves manufacturing methods reducing long run costs

Innovation = **Joseph Schumpter = Creative Destruction** = upheaval of the established order in the pursuit of innovation.
Smaller disruptive businesses often challenge existing firms with market power = Innovation can destroy monopolies = Apple and Samsung destroying Nokia

= Creative Destruction kills incumbent firms causing job losses though

Dynamic Efficiency occurs in the long run = new technology, innovation and invention.

Innovation = Destroys inefficient uncompetitive complacent firms by bringing a product that consumers demand and enjoy more. Innovation boosts consumer surplus and welfare.

Preview from Notesale.co.uk
Page 29 of 90

New products
Increased choice
Process innovation = lower prices
Higher consumer surplus

LR profit max = stay ahead of rivals by bringing in brand new products
LR Lower costs via process innovation
Retain marekt share

Principle agent problem + giving dividends to shareholders holders stops innovation

Perfect Comp Efficiency:
Productive (MC = AC):
Short Run = perfect comp firms aren't not productively efficient as they do not minimise average costs
Long run = yes productive efficient as firms enter

Allocative (P=MC) [AR = MC]:
Perfect comp will always be allocatively efficient (P = MC) because firms are price takers and do not have market power to raise prices.

Pure Monopolies = Is a market structure where one firm supplies all output in the market without facing competition due to high barriers of entry

Has 100% Market Concentration

High barriers to entry = 0 new Entrants due to branding, start up costs and patents

Technical/Legal Monopoly = Any firm with 25% of the industries total sales / Market Share == Tesco

Local Monopoly = A monopoly in a certain area

Monopoly = A market dominated by one firm.

Monopoly power gives the firm the chance to act as
a price maker. = they have a downward sloping AR Curve = due to no competition

Monopoly Power = Exists when firms are able to control price for their products in the market

To keep this power they need high barriers to entry so they're less likely to be challenged by new entrants and that they increase price and bite into the consumer surplus and gain higher supernormal profit. Patents, marketing, ecos of scale,

- **Inelastic demand due to lack of substitutes == High barriers to entry helps restrict schumpeter's creative destruction**

- Differentiation allows them to have loyalty from other producers and gain market share and increase price because people want the differentiated product

Preview from Notesale.co.uk
Page 31 of 90

Firms may be investigated for examples of monopoly power when market share exceeds 25% = CMA

- **high barriers to entry and therefore = Prices above equilibrium and a quantity below equilibrium (less quantity, induces Scarcity which increases price)**

- limited substitutes.

This is not socially optimal and represents a misallocation of resources.

Dominant Firm = is a firm that has at least a 40% market share

The monopolist can influence prices, so faces a downward facing Demand curve. As the price maker, it can choose the location of price along the demand curve but cannot charge a price that the market will not bear

We **assume** that the firm wishes to maximise profits (MR=MC)
There will be relatively price inelastic demand (few

Maximisers = Traditional Economic theory is that firms and consumers aim to maximise and make the best possible choices from all the options available

Satisficers = Examine a Limited set of alternatives and choose the best of them (rule of thumb, bounded rationality, mark up pricing)
OK level of profit

Independent firms = Satisfice

Profit Maximising:
MR = MC
The classical theory suggests that shareholders' interests are the most important and they are motivated by maximising their gain from the firm. Economic activity seeks to boost welfare WHICH INCENTIVISES PRODUCTION. Shareholders want to max their profits and dividends and thus force the firms to profit maximise so they can reap the rewards.

Conditions for Profit Maximisation:

- High Market Share
- Low contestability
- Low competition
- Barriers to entry
- Differentiated products
- Lots of Price making power
- Inelastic Demand
- No X inefficiencies

= The Average Firm cannot do this who has this power. Most firms in most markets don't have the luxury of these conditions to profit max.

Preview from Notesale.co.uk
Page 40 of 90

- Rail Industry = network rail = heavily regulated
- Apple can because it has that brand value = price Skimming
- Designer clothes
- Niche markets charging a premium = Satifiys needs and wants more effectively
- Favourable geographic location = where consumer have Inertia

= These firms can profit max because they have these favourable conditions

Revenue Maximisation:
MR = 0 to max total revenue

LESS ATTRACTIVE = LOWER OPERATING PROFIT = LESS INCENTIVE FOR NEW FIRMS TO ENTER THE MAREKT

= lower average costs due to ecos of scale and lower prices to consumers

On the diagram more quantity is sold In comparison to profit max which means they grow.

Rev Max price is lower than profit max price = predatory pricing

Rev Max is easier then profit max = perks on the job because of growth

LIMIT = STOPS NEW ENTRANTS

Lowering a price to below an entrant's AC could result in short term losses but it's unlikely as a firm has economies of scale such as financial and purchasing.

Limit pricing sets price so low firms can't jump in and profit

Limit pricing increases market share due lower price and this can have longer term benefits. The lower price will attract more customers and allow greater brand loyalty over time and increase a firm's ability to increase price in order to boost long run profits.

EV:

- Limiting price will **reduce profits in the short run** but it could be a part of a long run profit max strategy.
- Success is **dependent on ecos of scale.**
- Start up costs might reduce the strategy to be redundant
- Firms may enter with a higher price due to having a **higher quality good**
- **Having retained profits from a diversified business**
- Firms may sustain a **loss to establish themselves in the industry**
- **Non Price competition is easier than limit pricing**
- They may use creative destruction that will make the strategy redundant by offering a **superior product**

Predatory Pricing = An anti competitive strategy in which firms set a price below average variable costs in an attempt to force rivals out of the market and achieve market dominance. BELOW AVC

Preview from Notesale.co.uk
Page 52 of 90

PREDATORY = FORCES COMPETITION OUT OF THE MARKET = ILLEGAL

They price below average variable costs so they can't make a positive contribution to their fixed costs, so they'll shut down immediately. The dominant Firm should be able to sustain the loss for much longer than these smaller firms due to having more retained profits and Ecos of Scale from the previous year. When the smaller firms are forced out they can raise prices being the monopoly and gain higher degrees of supernormal profit.

EV:

- PREDATORY is **illegal**, CMA, fine, arrested rep damage.
- **Short Term losses need to be covered which will bite into retained profits or loan capital** which causes issues
- **Only works against smaller firms** because more dominant Firms can sustain losses for longer
- **Removes competition but doesn't deter entry into the market**. Some firms will enter the market once the dominant Firm raises prices to gain supernormal profit.

Cost Plus = mark up on average costs and the size of the market up is dependent on the level of competition and firms can undercut if the markup is too high

EV:

- **Costly to launch new product**
- **Costly to redesign**
- **New product must generate more revenue** than total costs
- **Dependant on how well its been researched to meet consumer needs and how the marketing is done**
- **Rivals may launch their own products at the same time**

Place / Distribution = the better the distribution channel the easier it is for consumers to buy products boosting revenue. Ecommerce,shelf space on major retailers, multi channel distribution click and collect

EV:

- **Costly to step up new distribution channels**
- Setting up a **new store incurs significant fixed costs**
- The success of the distribution channel is dependant on whether it meets the needs of the consumers, reliable time,low price delivery

Customer Service EV = incur costs, expensive to train staff, customer service is an essential comp advantage. Better customer service can't make up for a low quality product or service being offered

Loyalty cards, branding, packaging,marketing

Some firms always have significant market share and brand loyalty so even if the price for substitutes decrease they may not switch because its not as good.

No sign of interdependence

Preview from Notesale.co.uk
Page 54 of 90

The size of the market is shrinking overall so there's more aggressive behaviour

Firms can't set low prices in the long run as it may negatively impact other stakeholders

Game Theory:
Oligopolies play games with each other, there are tactics,strategies and planning that takes place. Most games assume a duopoly for simplicity of analysis.

How firms behave in strategic decisions, where they must take into account the responses to their own actions from rival firms

Prisoners' Dilemma = Problem in game theory that demonstrates why two people might not cooperate even if in their best interests

2 Assumptions:

1) Firms do not know for absolute certainty how rivals react

To prevent this firms need to **limit prices where AR = AC and make normal profit.** Which means no supernormal profits are being earned thus there is less incentive to enter the market.
= Sales Maximisation acts as a barrier to entry
= Increase Barriers to Entry Reduces Contestability

The threat of competition forces monopolies to increase output and lower price than the traditional ScP monopoly market structure model

Judging the Degree of Contestability:
Barriers to entry = anything thing that prevents firms from entering and competing in a market

How many firms are entering / exiting the market is it low or high if high than very contestable

Are there:
- Start Up Costs
- Brand Loyalty (brand Proliferation (umbrella brands))
- Advertising
- Patents
- Regulation
- Legislation
- Ecos of scale and operating at MES
- Restricting Access to raw mats and distribution channels
- Limit pricing
- Price wars with ecos of scale
- Predatory pricing
- Nationalised industries

Preview from Notesale.co.uk
Page 62 of 90

Sunk Costs = Costs that cannot be recovered if the business decides to leave = less freedom to exit market = by shutting down they may incur extra costs (redundancy costs, not getting revenue from R&D, asset write offs) = exit is not costless or advantageous = Specific capital or equipment would have little to no alternative use = therefore a large portion of the firm's investment has sunk
= And therefore provides a disincentive to enter as firms would experience these costs and makes markets LESS contestable

If there are sunk costs you can't do hit and run because because there are significant losses if you leave

Little / 0 = Sunk costs = more contestable markets

- Advertising / Marketing
- R&D
- Industry specific capital and equipment
- Asset write offs

Downward Sloping In SR and LR = There is an inverse relationship between demand for labour and wage rate. Firm employs more labour as the wage rate falls and as wages increase employers demand less labour because extra cost for them

A firm's incentive to demanding labour is that it will only hire labour if supernormal profits can be increased by more employees (specialisation + IMR)

There will no demand for labour unless in the long run a firm makes normal profit

In the long run all FOPs are variable including labour = this means firms can choose the amount of capital and labour it uses

The higher the wage rate = More Likely that in the **long run** The firm will switch to capital machinery as workers become more expensive and are less productive than machinery at that cost level.
= Short Term they're stuck with labour

Fall in the wage rate leads to the substitution effect and an expansion in labour demand = less capital more labour

When the economy is growing strongly, many businesses will be looking to hire extra workers to supply increased output
During a recession or a prolonged economic slowdown, the demand for labour tends to fall causing a rise in cyclical unemployment.

Movement:
- Wage rate rises (contraction) or falls [expansion in labour] (or other labour costs like national insurance)
- National minimum wage increases (contraction in labour) or decreases [expansion]
- Trade union power increases or decreases = gives employees bargaining power and the ability to barter wages via industrial action

Shifts:
- **Change In the price of the final product**
- **Demand for the final product** = if there's a decrease in demand for houses there will be an Inward Shift for the demand of builders
- **Price of substitutes** = if capital becomes more cost efficient then switch vice versa
- **Productivity** = lower productivity = lower employment = capital becomes more cost efficient
- **New technology** = if tech can replace workers then Inward Shift
- **Subsidy to employ more workers**

Technology = A change in technology makes labour more productive therefore firms may hire more workers or switch and it could result in lower prices for consumers as costs reduce therefore the firm can hire more labour as there is a derived demand.

Preview from Notesale.co.uk
Page 65 of 90

But new technology could also lead to a switch from labour to capital as the capital is more efficient via increasing **automation**. Automation can phase out skills for certain roles therefore some gain (machine operators) and some lose causing structural unemployment (creative destruction)

Wage Elasticity of the Demand for Labour = The responsiveness of the quantity demand for labour to a change in the wage rate

Will an employer fire a more than proportionate number of workers in relation to the wage rate rising, or will an employer hire a more than proportionate number of works to the wage rate lowering

- **Substitutability** = **where its hard to switch between capital and labour** as some jobs are labour intensive vice versa = **workers therefore seen as a necessity** and the majority of workers can **remain employed**

- **Labour as a percentage of total costs** = if labour is a small % of TC then it'll be Inelastic, as when the wage rates rise the increased costs won't have a significant impacts on profits and can continue to employ their workers.

- **PED of the final product** = **If the ped is inelastic then there is a high chance of labour demand being Inelastic.** This is because it can be passed onto the consumer in the form of higher prices without the loss of many consumers. There will be little change for the demand of labour and employment levels. But if it's **elastic** it will lead to a large **fall** in the demand **for labour** as **increased wages** increases the **price** which consumers **switch**

- **Time** = Short Run = **Inelastic as there is less time to employers to substitute labour with capital, contracts, redundancy costs, reluctant to lose trained workers,** = Long Run elastic more time to do so

Preview from Notesale.co.uk
Page 66 of 90

People stay employed = Short run, Inelastic PED of product, hard to switch to capital, labour is a small % of costs

Unemployed = Long Run, elastic Product, big total cost %, easy to switch to capital

Labour Supply:
Labour Supply = The number of hours people are willing to work and supply at a given wage rate

Supply = households

Upward sloping because as the wage rate rises more workers will want to work to earn this higher wage (higher incentive to work)

Lower wages = Contraction in labour supply

As with any competitive market the price mechanism will adjust the prices, In this case wages to where demand = Supply.

Equilibrium Wage rate = Workers are employed to the exact point where the extra costs are equal to extra revenue generated by selling their output

At equilibrium Workers are paid equal to their MRP (productivity) = no exploitation of workers = efficient wages
Maximum employment at y1

Wages above equilibrium can lead to **unemployment** as there will be excess supply of labour. However assuming no legislation (National Minimum Wage) then wages should fall to clear the labour market expanding the demand for labour and contracting the supply of labour

Wages below equilibrium can lead to **skill shortages** as there are excess demand for labour. However, assuming no legislation wages should rise, clearing the market and expanding the supply of labour. = wages are too low

The Equilibrium can change if there is a shift in labour supply and labour demand however the elasticities will have a significant impact on how much wage and employment change.

Wage Differentials = Is the difference between wages in different occupations

The presence of wage differentials highlights that labour markets aren't perfectly competitive:

- **Job Satisfaction**
- **Differences in Education, skills, natural ability and training.**
- **A reward for risk-taking, working in poor conditions and during unsocial hours**
- Reward for human capital - **differentials compensate workers for (opportunity and direct) costs of human capital acquisition.**
- Different skill levels – **market demand for skilled labour (with inelastic supply) grows more quickly than for semi-skilled workers.**
- Differences in labour productivity and revenue creation - **workers whose efficiency is highest and ability to generate revenue for a firm are often rewarded with higher pay.** = Taylorism
- **Trade unions** who might use their collective bargaining power = to achieve a mark-up on wages compared to non-union members
- Other **artificial barriers to labour supply like professional exams = CFA**
- **Employer discrimination** = a factor that cannot be ignored despite over twenty years of equal pay legislation in place
- **Region**
- **Private sector gets paid more than the public sector because there not at the mercy of fiscal policy** from the government = austerity
- **Monopsony power forces down wages**
- Lack of trade union membership
- Gig economy = temporary part time potions that need filling in = zero hour contracts

Preview from Notesale.co.uk
Page 69 of 90

- Capping prices means lower profits which in turn can lead to reduced capital investment by the utility businesses which makes consumer suffer from under investment in infrastructure because they're not dynamically efficient
- **Some firms might just leave the market reducing contestability and encouraging monopoly power**
- Requires a normative judgement on behalf of the government about what the price should be
- **Cap = dissuades new entrants**
- **Firms may raise prices in other ways**

Alternatives = Measures to reduce barriers to entry, windfall tax (taxes on monopoly profits)

Profit Regulation:
The firm is limited on the rate of profit thereby prevented to make supernormal profit. The Government calculates the rate of return they'd make in a comp market. They calculate the operating costs of the monopolist and then add the rate of profit. Often a rate of return on capital employed which increases productivity production and profits.

EV = Firm no longer has to be efficient since it will always be above their operating costs, passing costs onto consumer and buying a lot of capital, Asymmetric Information
Over employ capital to increase profit
Asymmetric info and overreport capital employed and costs

Quality Standards = A profit maxing firm focuses on profits not quality, so they may cut quality to boost profit levels = enfroced Standards of QA and QC, Royal mail forced to deliver letters despite being loss making = EV resistance form monopoly and suggest self regulation

Performance targets = Targets of output from a firm = For example railway must arrive 5 mins before advertised arrival, firms will try to find a work around these by making journeys longer and changing timetables

QS + PT = Unintended consequences = NHS having targets is bad because they misdiagnose =

Breaking up the monopolist = monopoly busting = Many free market economists believe that monopolies should be broken up to get closer to perfect competition = **loss of ecos of scale not operating on the MES**, ***natural monopolies*** can't be broken up because only one firm can cause LRAC to fall over all output and if price is set to marginal costs (allocatively efficient) then losses will be made

Windfall taxes = tax on monopolies beyond normal Corp tax = arbitrary tax thresholds (difficult to tax the right level from society's pov because of asymmetric information) , not a long term solution, firms will reduce profits to avoid tax = Uses market forces to internalise the externalities for the producers which is respected by non Interventionists = If PED is Inelastic producers can pass most the burden on to the consumer and have little impact, Putting costs on firms make them less internationally competitive, May encourage secondary markets/shadow markets, Collection of tax and administration costs, Can harm the poor

Preview from Notesale.co.uk
Page 82 of 90

XED Sub = Chicken and Chips Shops

YED Normal Good = Dining, Foreign Holidays = As incomes rise there's an increase

YED Inferior = Tesco Own Brand Food

Negative Externalities of Production = Manufacturing of chemicals,metals, and clothing create air pollution, pollute rivers and lose biodiversity. Cars and Air Pollution, Deforestation

Positive Externalities of Consumption = Vaccines,Healthcare,Public Transport, Exercise,

Public Goods = Flood Defenses, Street lights, roads,bridges,national parks, defense, traffic light's

Demerit goods = Alcohol, cigarettes sugar,

Indirect Tax = Sugar Tax, Alcohol duty, Cigarettes duty, Plastic Bag taxes

Subsidy = Solar Panels, Electric Cars, R&D, Public Transport (Bus and Rail)

Regulations = Smoking Bans Indoors, Smoking Advertising, Age Limits for Cigs, False Cigarettes advertising, Nutritional Information, Key Info, Caps on CO2 Emissions for quotas,

State Provision = Public goods, NHS, State Schools

Pollution Permits = Koyoto and ETS

Preview from Notesale.co.uk
Page 88 of 90

Min prices = Alcohol in Scotland (50 Pence per Unit) Min prices used on alcohol to reduce alcohol consumption and their external costs by increasing the price of cheap alcohol which leads to people being less antisocial and pissed.

Max Prices = Energy Cap 1 october 2022 - april 2024 = necessity = makes energy cheaper and Fairer for consumer, stops excess profits being made and stops consumer exploitation, help reduce the cost of living consumer pay less

Monopolistic Competition = Taxis, Streaming services, Coffee Shops

Competitive Oligopolies = Lidl and Aldi VS Tesco (price and non price competition), Cars, Mobile Phones, Short Haul Airlines

Collusive Oligopolies = EDF Energy, EON and N - Power raising price of electricity and gas in the UK (weak consumer switching,vertical integration, increased supplier profits without being more efficient, tacit, barriers to entry)

petrol stations, oil companies OPEC,