Spectator Sports

The dominant sport is football (Football League (72 small clubs) and Premier League (10))

Premiership football the top four teams that regularly appear to dominate the league, Manchester United, Liverpool, Arsenal and Chelsea may well be considered to fit this description. Between them they certainly have a significant share of the total revenue earned in the UK market, and each of them regularly appear in the top 10 money earning clubs in the world.

1) Barriers to entry (high) into this top echelon may also be said to exist as continued success in the top division of the English league yields handsome financial rewards. 1) Television stations around the world pay to the Football Association who manages the league. This allows these top teams to buy the services of the best players (good football-increase customers loyalty-brand name), denying them to other teams, and consequently maintaining their dominance. Year on year these top four then qualify for the equally lucrative European champions league, which becomes increasingly inaccessible to the rest of the clubs in the league and once again the barriers to entry grow.

2) Also, it is easier for dominant football clubs to get sponsorship(shirt sponsorship and commercial sponsorship of competition such as e.g. the Guinness Premiership in rugby. The total value of sports sponsorship in the UK exceeds £1 billion!)Andinvestors' support- more financial support- can invest in brand and get good players- improve brand loyalty- BTE- market seems to be low contestable.

3) Plus consumers usually have a greater level of loyalty towards a particular club (big-big fans)- demand for its tickets is inelastic- brand loyalty- BTE.

4) Highly differentiated product in spectator sport industry is evidence that, despite the large number of clubs, the market is likely to be an oligopoly rather than operating under monopolistic competition. (Heavily branded product, significant non-price competition – product differentiation (adverts are important) exists between the businesses). This is probably more important in the worldwide market for Premier League-merchandises (EoS- risk-bearing)- to appeal amateurs all over the world.

5) The dominance of some firms also suggests that.High MRC(Premier League) The top 4 are the biggest earners repeatedly and the most successful on the field.

6) Price discrimination takes place. For example, football clubs are likely to charge higher prices to away fans than home fans, as their demand will be inelastic. (They are loyal enough to their clubs to travel abroad, and then are not price incentive towards tickets of the favorite club)

7) Plus it depends on technological advance (Internet allows clubs to communicate with fans abroad and reduce the LR costs (EoS-technological)- no need to travel abroad-improving their loyalty)

However:

1) On the other hand there are other teams in the division who could grow their businesses through success on and off the field- potential competition-contestability

2) Also each year due to promotion and relegation 3 new teams join the league and 3 exit; consequently there is the potential for change to occur especially over a number of years. (Time period and contestability)

3) Certainly there is no convincing evidence that any of the top 4 clubs are making abnormal profits (MU made a loss in 2010-2011-97.8 pounds) The apparent willingness of clubs to immediately re-invest funds into playing staff purchase and

- *The way in which cinema chains boost their profits* is by ***cutting their costs***, and they are well known for being one of the main types of employer employing staff on zero hours contracts. These casual contracts allow cinema chains to employ staff with no guarantee of work, and employees only work as and when they are needed. Typically busy times for cinemas are school-holidays and weekend evenings, so this is when most staff is employed. Younger staff tends not to be unionised, and so wages may be lower. With around 20% of revenue for cinemas being spent on staff, cutting these costs will have a strong effect on profits.
- A final way in which cinemas have been able to boost profits is ***through greater use of product differentiation***. More are offering 'premium' services, with luxury reclining seating and specialist at-seat' food services. The mark-up on these offerings is high, and is starting to make an impact on the bottom line for cinemas. The Electric in Birmingham provides waiters that will bring absinth and olives to your seat; at Manchester's Cornerhouse you can enjoy a slice of pizza to accompany your film quiz.
- ***Barriers to entry also cause a reduction in the contestability*** in the industry, and this is what we would expect to observe in an oligopoly-dominated industry. However, the market is not completely uncontestable as there may be room for a niche cinema in larger towns and cities. For example, independent cinemas still account for around 14% of all screens in the UK (2012).
- The significance of interdependence can be seen in terms of how similar ***pricing 'rules'*** emerge. For example, price discrimination is an accepted strategy adopted by all cinema theatres, with percentage differences between adult and child tickets being almost identical. 'Cheap Tuesday' is an example of how discounts can be organised on a 'rule' basis.
- Theory suggests that oligopolists prefer ***non-price competition*** and the avoidance of price competition which could lead to risky price wars. Given the need to attract customers, cinemas still need to compete with other chains and with other leisure pursuits, even when pricing 'rules' exist. Hence competing on non-price factors such as quality of seating, leg-room, availability of food, the quality of the sound system, free 3-D glasses, car parking facilities and special offers, and competitions appears the accepted method of competition.
- Of course, it is difficult to assess whether cinema owners actually collude or not, other than through an implicit understanding of pricing rules. Given the impact of the *Competition Act 1998* and the *Enterprise Act 2003* and the severity of penalties for proven anti-competitive behaviour, any collusion which may exist is likely to be 'rule based' and hence very difficult to prove. What is clear is that film exhibition in the UK is highly concentrated and indeed dominated by a few large firms and that these firms exhibit all the characteristic behaviour of oligopolists.

<u>Factors affecting demand for cinema admissions</u>

1) ***The price of cinema tickets***- ***Average ticket price - 6.72 £***

A change in the price of a ticket will cause a movemen along the demand curve while a change is any of the following conditions of demand will shift the demand curve to the laft or right.

2) The price and closeness of substitutes

3)The price and closeness of complements - .the sale of complements to cinema admissions such as popcorn and soft drinks generates significant revenue for cinemas.

4)National income - while national income grew considerably in the period from 1984 - 2009, there was a trend increase in cinema admissions.
5)The popularity of films on release - very popular films are likely to give a temporary boost o overall cinema admissions as people desperate to see them.
6) The quality of facilities - improved facilities increase demand
7)Advertising - it is always an important way of increasing demand for a product and making it less elastic(less sensitive to price). 168.3 million £ was spent in the UK on promoting films in 2009.

Evaluation points from Mr Lees Handout

1.New technology such as DVD,HD TVs and internet streaming have damaged cinemas demand, as demand in last year felt for 5% to the lowest level for 8 years, raising concerns about whether cinema was falling into a final decline.
2.However,there is a growth of upmarket cinemas eg.Everyman, where viewers can enjoy champaign, leather seats and even meal with a film,which led to increased spendings per head on cinema to17.6£ 2014
3.Rivals for cinemas are other forms of out-of-home-entertainment eg Legoland, so cinema has to be very good value for money to be able to compete.
4.VUE held its !st music concert in a cinema in 2005; two years later it screened a live transmission of a Genesis concert.
5. Ways to improve: installing new sound system,ultra-high-definition 4K and 3D screens, Imax.

Pricing strategy in the package holiday market

Oligopolistic market- Whether to compete on price?
The interdependence between the dominant firms does not allow price competition as it might lead to a price war(kinked demand curve)
Long run and Sort run pricing strategies have to be considered

Sort run pricing strategies

1) depends on the season
2) high sunk costs- fixed costs- unrecoverable – costs associated with hotel rooms and seats on flight that have to be paid anyway(BTE)
3) when departure dates are near tour operators have to reduce prices(make discounts) (as long as there are surplus holidays to sell)-therefore price competition might occur in the SR. However, the price does not necessarily falls as the departure dates approaches (a rush of bookings for that holiday may lead them to raise the price)

Long run pricing strategies

1) depends on the future demand(forecasts have to be made)
2) depends on the actions of others – interdependence

International leisure travel

Mostly by air
1) Recession is a hard time for air travelling companies – many budget airlines failed during recession of 2008-9(XL leisure)
2) These failure mainly was caused by the high oil price (fuel) – depends on the prices of resources
3) consumers are reluctant to take international travel- demand dropped
4) unemployment rose- unemployed are unlikely to take any holidays abroad
5) British pound has weakened against other currencies (dollar/euro)- this leads to higher costs the tour operators have to pay- it is more expensive for Britons to go abroad

Market structure

British airways is the dominant firm in the market (48%) then Virgin Atlantic (17%) then easy Jet (11%) Thomsom Airways (6%) Thomas Cook (5%). There is a 5-firm concentration ratio of 87% of all tonne-kilometres used by UK airlines. Other smaller firms own 13% of the rest of the market- some competition there. Interdependence exists- a change in pricing strategy of one airline will affect the strategy of the other companies serving the same route.

BTE and contestability

Traditionally - difficult to enter
In the past markets were regulated by governments to limit access.

However, the recent trend suggests that the BTE are lowered.

1) open sky agreement – Under EU open skies agreement is has been possible for any airline based in an EU member state to operate flights between two points in Europe (since 1997).
2) Since 2008- open sky agreement between the EU and the USA

However there are still some BTE
1) The cost of buying aircraft(start up costs)
2) Obtaining an air operator's license(admission)
3) EoS
4) Brand loyalty
5) Most profitable routs are already served – no space within the market 5

Monopoly

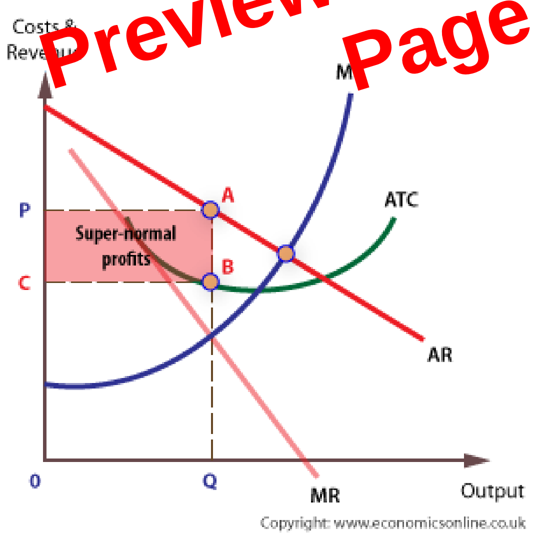
– this is where there is a single producer in the market

- Legal monopoly – a market where a firm has a share of 25% or more.
    - These have been granted permission to be the sole producer for a particular industry.
- Dominant monopoly – a market where a firm has a share of 40% or more.
- Absolute monopoly – when there is only on firm in a market.
- Pure monopoly – one firm in the industry

Characteristics of a monopoly

- Very high barriers to entry
- Short run profit maximiser (MC=MR)
- Long run supernormal profits.
- Price maker (can chose price or output position MC=MR)
- Unique good

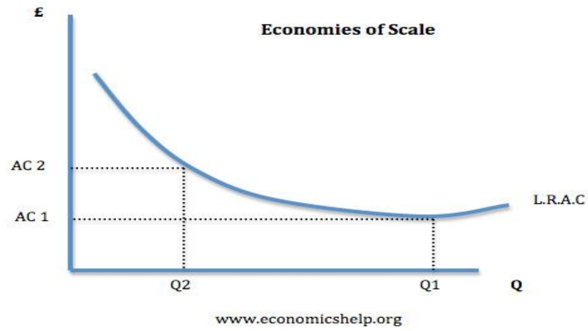
Exploits advantages of economies of scale



-A monopoly maximises profits where MR=MC. It sets a price of P and quantity Q.
-MC curve always cuts AC curve at its lowest point.
-Abnormal profit where AR>AC, this will be above MC=MR point.
-Monopolies can maintain super-normal profits in the long run.In general, the level of profit depends upon the degree of competition in the market, which for a pure monopoly is zero.
-A monopolist with no substitutes would be able to derive the greatest monopoly power.

Advantages of Monopoly

1. Economies of scale- occur when output increases and unit costs decrease.These cost reductions will lead to a decrease in costs and increase in profits for the monopoly producer.



1.Purchasing economies.Reduced unit costs (bulk buying discounts, marketing).
2.Financial economies. The costs to finance may be lower for larger firms as they may have better credit ratings and have access to the capital market. Lower interest rates when taking loans, due to smaller risk for the lender.
3.Technical economies.Increased capacity or a technological development that results in lower long-run average costs (specialist equipment).
4.Risk-bearing economies. Large firms will find it easier to diversify and get loan.
5.Network economies.When larger firms have a network of suppliers and customers. Thus certainty of supply and demand.
6.Managerial economies.Savings in long-run average costs due to the specialization or management.

2. Research & Development

Monopolies make supernormal profit which can be invested in Research & Development. This is important for industries like medical drugs. This expenditure on innovation and invention could lead to efficiency gains in the market and can lead to lower costs than in competitive markets. A firm or increase, market share at the expense of immediate profits. Often this is the result of a broken collusive agreement (or cartel). In recent years, we have seen price wars in the following industries: fast food (McDonald's verses Burger King) and package holidays.

Collusion

This means getting together and making an agreement about quantities produced and, therefore, prices. Some **cartels** (an informal agreement) are very open, the classic example being OPEC. They were very powerful in the 70s, less so in the 80s and 90s (oil is not so important to industry nowadays), but have managed to show that they still matter in 1999/2000, forcing the price of a barrel of oil up to $30 (a doubling in one year).
The goal of a cartel is for the few firms in the industry to join together and, effectively, form a monopoly. The shared profit will be higher than if the firms were competing with each other. The big problem, of course, is the fact that it is tempting for a member of the cartel to cheat.
Of course, most cartels, formal or secret, are illegal. It is an attempt by the firms in an oligopolistic situation to eliminate any competition, which is bad for the consumer.

Non-price competition

Non-price competition involves advertising and marketing strategies to increase demand and develop brand loyalty.

Businesses will use other policies to increase market share:

Better quality of customer service including guaranteed delivery times for consumers and low-cost servicing agreements, good after-sales service.

Longer opening hours for retailers, 24 hour online customer support.

Discounts on product upgrades when they become available in the market.

BOGOF techniques – buy one, get one free tactics

1. Loyalty cards, free delivery, online ordering, free gifts, guarantees
2. Location of stores and outlets and also the types of outlets that they operate e.g. local convenience compared to hypermarkets

A **brand name** is a name used to distinguish one product from its competitors.When brand loyalty is strong, **cross-price elasticity of demand** for price changes between two substitutes weakens and fewer consumers will switch their demand when there is a change in relative prices in the market. Robust brand loyalty makes it easier to charge **premium prices** and earn **supernormal profits** because loyalty is a barrier to entry.

Limit pricing is where the firms in oligopoly try to set a price that **limits** the entry of new firms into the industry. They try to set a price that is low enough to put new entrants off, but hopefully still high enough to make some sort of profit. It is temporary and not really designed to be a loss leader, unlike **predatory pricing**, where, as the title suggests, the goal is to kill off an existing competitor. The price is reduced to below cost price, a definite loss leader, so that the competitor cannot cope. Once the competitor has left the market, the price can be raised back up to the old level **and** there are more customers to go round

Using a leisure market of your choice, discuss the extent to which it may be considered to be an oligopoly. (20)

The choice of industry is likely to come from the recommended areas of study, holidays and leisure travel, spectator sports, could be said to be monopolistically competitive.

Evaluation

The advantages of monopolistic competition

Monopolistic competition can bring the following advantages:

1. There are no significant barriers to entry; therefore markets are relatively contestable.
2. Differentiation creates diversity, choice and utility. For example, a typical high street in any town will have a number of different restaurants from which to choose.-increase in welfare in the LR
3. The market is more efficient than monopoly but less efficient than perfect competition - less allocatively and less productively efficient. However, they may be dynamically efficient, innovative in terms of new production processes or new products. For example, retailers often constantly have to develop new ways to attract and retain local custom.

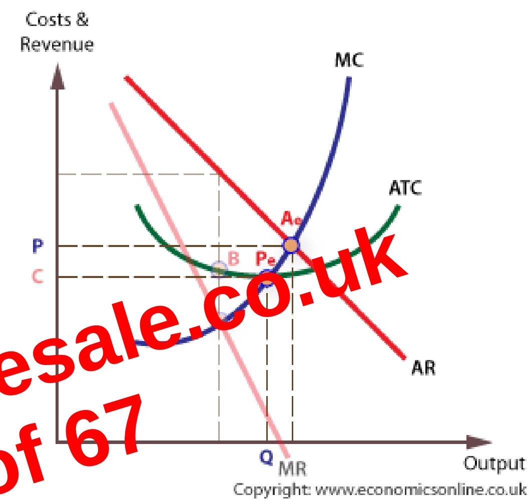
The disadvantages of monopolistic competition

There are several potential disadvantages associated with monopolistic competition, including:

1. Some differentiation does not create utility but generates unnecessary waste, such as excess packaging. Advertising may also be considered wasteful, though most is informative rather than persuasive.
2. As the diagram illustrates, assuming profit maximisation, there is allocative inefficiency in both the long and short run. This is because price is above marginal cost in both cases. In the long run the firm is less allocatively inefficient, but it is still inefficient.

Inefficiency

The firm is allocatively and productively inefficient in both the long and short run



There is a tendency for excess capacity because firms can never fully exploit their fixed factors because mass production is difficult. This means they are productively inefficient in both the long and short run. However, this is may be outweighed by the advantages of diversity and choice.

As an economic model of competition, monopolistic competition is more realistic than perfect competition - many familiar and commonplace markets have many of the characteristics of this model.

7)*Limit pricing*

Existing firms may be operating a **predatory pricing** policy. As the title suggests, this is a policy designed to kill off competitors by reducing the price below cost price temporarily. The idea is that once the competitor is killed off, the firm can raise the price back up to the old level and steal all their customers. **Limit pricing** is similar to predatory pricing, except the firm in question is trying to 'limit' the entry of new firms by setting the price low enough to prevent new firms entering, but high enough to still make some sort of profit. Actions like this by incumbent firms obviously act as a barrier to entry for potential new firms.

8) High R&D costs

When firms spend money on research and development (R & D), it is often a signal to potential entrants that they have large financial reserves. In order to compete, new entrants will have to match, or exceed, this level of spending in order to compete in the future. This deters entry and is widely found in oligopolistic markets such as pharmaceuticals and the chemical industry

The importance of barriers to entry and exit.

- Barriers to entry determine the level of competition and contestability in a market : the lower the barriers, the more contestable and potentially competitive a market is. If it is easy for firms to enter and leave the market, supply will adjust quickly and smoothly in line with changes in consumer demand.

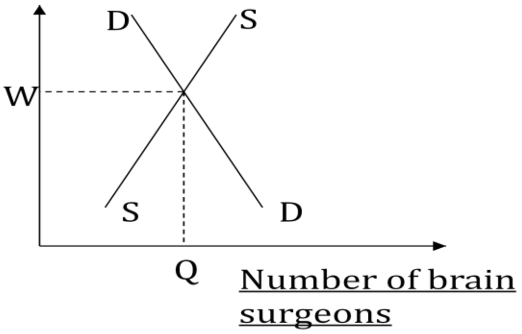
-Over time barriers could change and with them the nature of the market. EG. With the rise in start-up costs for Formula1 teams, it could be argued that the market is becoming less contestable. In constructing and maintaining barriers , resources may be wasted.

-There may be excessive advertising expenditure, the taking out of patents just to prevent rivals being able to produce the products or use the methods, and there may be excess capacity. High expenditure on advertising would mean that any potential entrants may be put off by the need to match such spending.

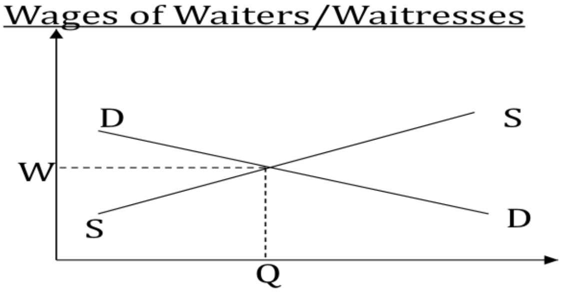
-Patents may also discourage new firms from entering a market, since they will know that they cannot produce products to the same design for some time.

-In addition, they may be dissuaded by the awareness of the incumbent firm's or firms' excess capacity, since such capacity would enable the incumbent firms to raise output and lower price should they enter the market.

- The figures below show the market for brain surgeons and waiters and waitresses.



Wages of Waiters/Waitresses



Wage Differentials

- Wage differentials are ***differences*** in wages.
- Wage differentials occur between occupations, industries, firms and regions and within these categories.
- Wages are the reward to a factor of production
- Thus differentials act to reward differences in labour

Economic Functions

- Their main function is to act as a signalling device to indicate excess demand or excess supply for a particular type of labour

Labour is not homogenous and is thus rewarded differently

Differentials indicate differences in demand and supply and therefore give an incentive to labour to move jobs

- Differentials exist in the long- run and the short- run and can be overcome by education & training.

The factors that influence differentials:

- ***Relative bargaining strength***: workers have higher bargaining power if:
  - They belong to trade unions and professional bodies
  - They are in occupations where industrial action has significant consequences.
- ***Government policy***:
  - Increased government spending in certain areas e.g. health, increases demand
  - The National Minimum Wage Rate has increased the wages of some low paid workers.
- ***Public opinion***: Some occupations are held in higher public regard than others.
  - Brain surgeons are held in high public esteem. They are perceived as providing a vital service and are highly skilled having undergone a long period of training.
  - Waiters and waitresses are not held in high regard and it is generally thought that any one could do the job.

Wage Differentials Between Particular Groups

1. ***Skilled and unskilled workers***:
   - The supply of skilled workers is lower than that of unskilled workers
   - The marginal revenue productivity of skilled workers is high because the skills leads to higher output per worker
   - It is more difficult to substitute skilled workers with machines
2. ***Male and female workers***: Women still earn less than men for a number of reasons:
   - More women than men work part time
   - In the past men were more highly qualified than women. The gap in qualifications is narrowing
   - On average the marginal revenue productivity of women is lower than that of men because women are disproportionately concentrated in low paid occupations which generate low marginal revenue.
   - Women may leave the labour market to bear and raise children thereby losing out on promotional chances

3)Part-time and full-time workers:

- In the last two decades there has been a noticeable decline in labour disputes.

Monopsony Employer- Employers with labour market power

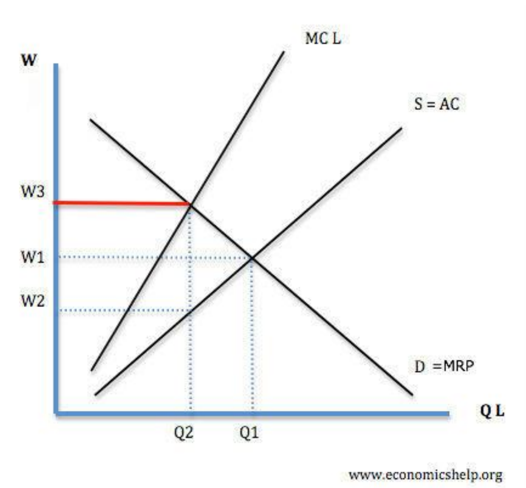
- Employers who employ a high percentage of workers in a particular labour market can influence the wage rate.
- In a labour market, a ***monopsonist*** is a firm which is the only buyer (i.e. employer) and a ***oligopsonist*** is one of a few dominant firms buying a certain type of labour.
- An example of a monopsonist is the Ordinance Survey, which is the main employer of map makers in the UK.

The Determination of Wages and Employment

- Monopsonists and oligopsonists are price makers. They influence the wage rate.
- The marginal cost of hiring extra workers is greater than the current wage rate as the higher wage paid to the extra worker has to be paid to all workers.
- Hence, a monopsonist, facing a large number of independent workers, will force wage rates down to W2 and employ Q2 workers.

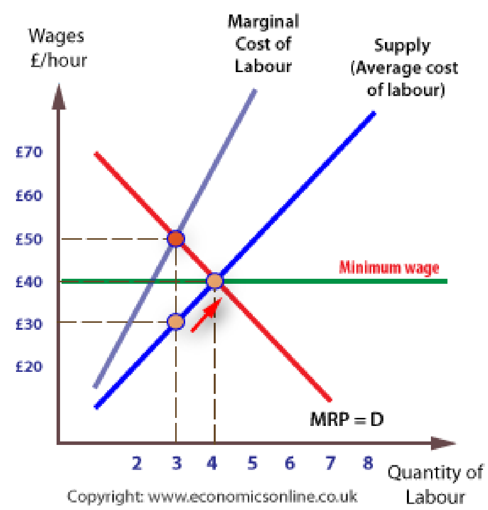
- The entry of a union into the market, which sets a minimum wage of W1, will kink the supply curve of labour and produce a discontinuity of the MC curve of labour.

  The monopsonist has a profit incentive to hire extra workers providing MRP>MC. Hence, at a wage rate of W1, Q1 will be employed. Upper limit is W3- where workers will get higher wages but employment remains at the same level so as the wage rate is W2 (lower limit)



Bilateral Monopoly

- When a monopoly trade union negotiates with a monopsonist employer (bilateral ***monopoly***) i.e. there is a single buyer and seller.
- The wage rate will be determined by the relative bargaining strength of the two sides.
- If the monopsonist is more powerful the wage rate will be close to that which the monopsonist would have chosen to pay without any trade union intervention.
- The upper limit will be the maximum the monopsonist can pay without threatening the existence of the firm. The stronger the trade union the closer the wage rate will be to this limit.



Factors Influencing an Employer's Bargaining Strength

An employer will be stronger:

The Distribution of Income and Wealth

Wealth

- Wealth is a stock of assets that have a financial value.
- Marketable wealth is wealth that can be transferred to another person (houses, stocks and shares)
- Non-marketable wealth is specific to a person and cannot be transferred (pension rights)
- The distribution of wealth is considered in terms of how it is distributed between the population, the forms in which it is held and the characteristics of the wealth holdings.

Wealth is very unequally distributed in the UK population.

Wealth distribution between assets

Examples are life assurance and pension funds, property, securities and shares, bank and building society deposits and cash.
Life assurance and pension funds have accounted for the largest percentage of wealth held! This form of wealth is more evenly distributed than property securities and shares.
The proportion of a particular asset held in the wealth depends on its changes in value.
For example the proportion of wealth held as property has increased due to both the increase in owner-occupation and the rises in house prices.

Wealth Distribution Between Different Groups

Wealth is unevenly distributed between age categories. (Adults of age 40 have more than those of 20)
The amount of wealth also varies between ethnic groups and gender. Men have more wealth than women.

Sources of Wealth

A person can become wealthy in four main ways:

- ***Inheritance:*** This is the main way of acquiring wealth.
- ***Savings:*** To achieve significant wealth saving has to be on a large scale. Also Wealth creates wealth.
- ***The use of entrepreneurial skills:*** building up a business can accumulate Wealth.
- ***Chance:*** for example lottery winners.

Causes of the Inequality of Wealth

These are linked to the sources of wealth:

The pattern of inheritance: Significant holdings of wealth are traditionally passed on to the next generation on the basis of primogeniture (the right of the eldest son to inherit to the exclusion of others). Where property and other assets are distributed amongst children on the death of parents, wealth becomes more evenly distributed over time.

Marriage patterns of the wealthy: the wealthy tend to marry other wealthy people, which further concentrate wealth in the hands of a few.

Inequality of income: those with higher incomes are more able to save. (Marginal propensity to save is greater for wealthy people)

Different tendencies to save: those who save a higher proportion of their income will accumulate more wealth than those who save a lower proportion.

Luck: this plays a part in who wins money and may play a part in the success of businesses.- different entrepreneurial skills.

Wealth and Income Distribution

- Wealth is more unevenly distributed than income.
- While a person can survive without owning any assets, it is not possible to survive without any income.
- Due to inheritance, the highest amount of wealth a person can hold at any one time exceeds the highest amount a person can earn.
- Within a country the distribution of income can be considered in terms of how income is shared out between the factors of production (functional