Syllabus Weight = 2

Market Failure

Webnote 146

Note: webnote valid g10 b+m and sl1 classes

Consumer power — *How do firms compete?* — *(Producer Power)*

PC — M-ISTIC — O — M

PC

1. **Efficient lowest point on AC (see economies of scale)**
2. **Homogenous**
3. **Large number of small firms**
4. **No barriers to entry + exit of industry**
5. **Nearest example: farmer**
6. **No price power / Price taker**

MISTIC

1. **Inefficient (not at lowest pointon AC)**
2. **Branded products**
3. **Large number of small firms**
4. **No major barriers to entry**
5. **Spar in Kaiserswerth**
6. **Little price power**

O

1. Inefficient (economies of scale may result in lower unit costs than PC or monopolistic- see fig 1 below)
2. Branded products
3. Small number of large firms
4. major barriers to entry e.g set up costs
5. coca cola –see Mexico clip, Ford, Aldi etc
6. Price power

M

1. **Inefficient(economies of scale may result in lower unit costs than PC or monopolistic-s ee fig 1 below)**
2. Branded products if in final goods market

3. 1- 4 or 5 firms possible

e.g. microsoft and ??

4. major barriers to entry e.g set up costs

5 microsoft

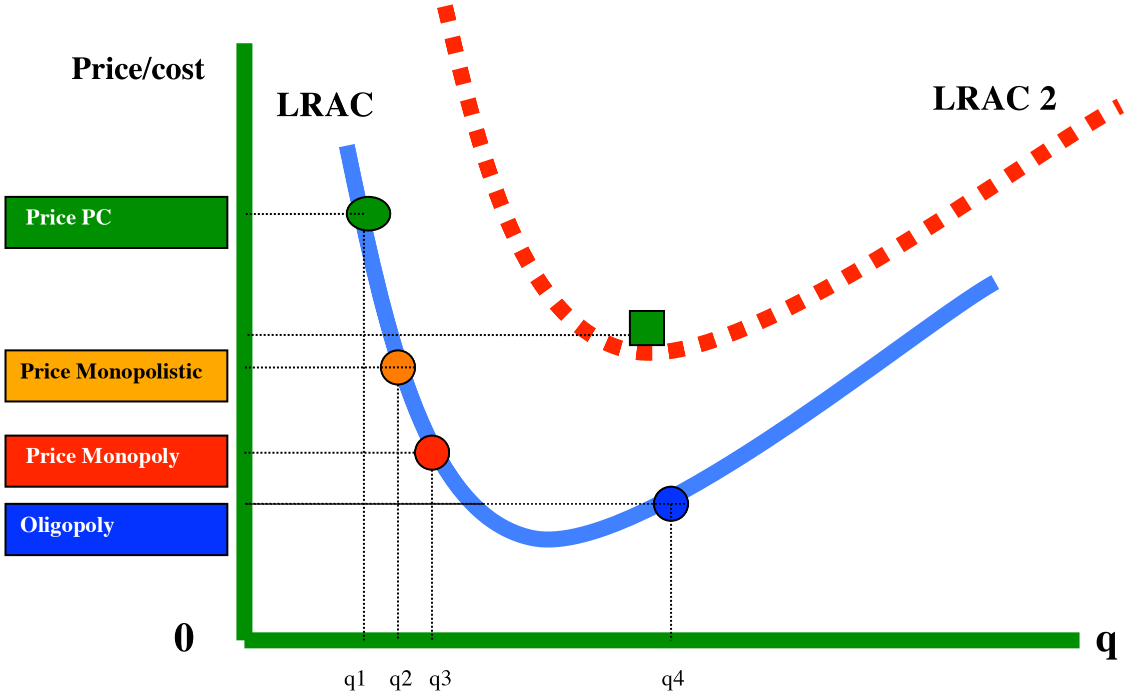
6. Major barriers e.g cost of set up

7 Price power –unless a legal monopoly

Syllabus Weight = 2

Webnote 146

Fig 1: Long Run Average Cost for a Firm (LRAC) (= total costs of firm / total output)



Notes:

Fig 2 The Price Taker and the Price Maker (Leader) in Microeconomics