2022 NJC H2 Economics Preliminary Examination Essay Question 2

2 **(a)** Explain why some consumer electronics megastores in Singapore like Courts and Harvey Norman would price match other consumer electronics megastores by charging the same prices for same products but smaller consumer electronics stores in the neighbourhood would not. [10]

(b) Discuss whether demand or supply factors are more important in explaining the coexistence of big businesses and small independent businesses. [15]

Part (a) suggested answer

Introduction

- Consumer electronics stores in Singapore operate in a oligopoly market structure.
- The megastores (i.e. oligopolies) are mutually interdependent thus would price match other megastores.
- The smaller stores in the neighbour would not match the megastores.

Body 1: Explain that some consumer electronics megastores would price match other consumer electronics megastores by charging the same prices for the same products.

- In Singapore's consumer electronics market, there are a few dominant firms (e.g. Courts, Harvey Norman, Best Denki, Challenger,) and each of these megastores has significant market share.
- In addition, there are high barriers to entry in the market. For example, existing megastores enjoy tremendous brand loyalty via their respective loyalty reward program where members can accumulate points which can be used to enjoy additional discounts, attractive free gifts, etc.
- Furthermore, each of the megastore sells differentiated goods thus there are a few close substitutes e.g. same product from the same brand such as LG, Samsung, Panasonic but each has different inhouse warranty.
- The megastores are therefore mutually interdependent.
- If a megastore reduces its price, other megastores would have to follow suit i.e. price match. If not, they would face a decrease in demand and profit would decrease.

Body 2: Explain that smaller consumer electronics stores in the neighbourhood would not price match the megastores because they do not need to and/or are unable to.

- On the other hand, due to their small scale of production / sales, the smaller stores in the neighbourhood would not price match the megastores because the former does not enjoy the level internal economies of scale (IEOS; if any) enjoyed by the megastores. For example, the smaller stores are less able / unable to enjoy marketing economies of scale e.g. with smaller scale of production / sales, advertising cost of the smaller stores is only shared across a smaller amount of output / sales. As a result, when faced with the lowering of prices by the megastores, the smaller stores are unable to price match the lower prices due to their higher average cost.

Conclusion

- In conclusion, consumer electronics megastores would price match other consumer electronics megastores by charging the same prices for the same products due to mutual interdependency but smaller consumer electronics stores in the neighbourhood would not due to their inability to enjoy IEOS.

Mark scheme

<table>
<tr><th>Levels</th><th>Descriptors</th></tr>
<tr><td>L3
8 - 10</td><td>For an answer that demonstrates knowledge, understanding, application and analysis:

EXCELLENT breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. ALL points chosen should be of relevance and significance in answering the question.

EXCELLENT depth in economic analysis that reflects the following in ALL explanations.
✔ Accurate use of economic concepts, clear elaboration, and precise use of economic terminologies, language and phrasing.

The answer should also be supported by:
Well-labelled and well-referred to diagram(s) / tool(s) of analysis drawn with precision (where appropriate).
Relevant examples and accurate use of facts.
Logical structure.</td></tr>
<tr><td>L2
5 - 7</td><td>For an answer that demonstrates knowledge and understanding but lacks application and analysis:

At least GOOD breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. MOST points chosen should be of relevance and significance in answering the question.

At least GOOD depth in economic analysis that reflects the following in MOST explanations.
✔ Accurate use of economic concepts, clear elaboration, and precise use of economic terminologies, language and phrasing.

The answer should also be supported by:
Diagram(s) / Tool(s) of analysis that may not be well-labelled, may not be well-referred to and may not be drawn with precision (where appropriate).
Example(s).
Logical structure.</td></tr>
<tr><td>High L1
3 - 4</td><td>For an answer that demonstrates knowledge but lacks understanding, application and analysis:

INSUFFICIENT breadth that considers the following economic concept(s). Point(s) chosen may be of relevance but may not be of significance in answering the question.

INSUFFICIENT depth in economic analysis that may reflect the following:
● Lack of accuracy in the use of economic concepts, lack of clarity in elaboration, and lack of precision in the use of economic terminologies, language and phrasing.</td></tr>
<tr><td>Low L1
1 - 2</td><td>For an answer that:

Is irrelevant in analysis but may contain an introduction that addresses the question or contains no economic analysis but may contain a few statements that are relevant to the concepts required to answer the question.
Contains fundamental conceptual errors in analysis.</td></tr>
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Part (b) suggested answer

Introduction

- Both demand and supply / cost factors can explain the coexistence of big and small businesses.

Body 1: Explain the demand factor(s) that explains the coexistence of big and small businesses.

- The size of a business can be determined by the size of its demand i.e. demand factor.

- Even if a business can enjoy huge average cost savings from having a large scale of production via enjoying internal economies of scale (IEOS) having a large output would decrease the business' profit if it faces a much smaller demand for its goods. The size of the business would thus be limited i.e. existence of small businesses.

- However, if a business faces a much larger demand the business can then grow big while enjoying internal economies of scale.

- A determinant of the size of demand is consumers' preference.

    - Small businesses exist (alongside with big businesses) to cater to consumers' taste for varieties and personalised services. For example, in shirt making businesses, small bespoke tailors exist to cater to a small niche group of consumers who want custom-fit shirt to look better.

    - On the other hand, the existence of a much larger size of consumers who value lower prices over personalisation explains the existence of big shirt making businesses.

    - The coexistence of big and small firms can thus be explained by the size of demand for the products / goods which is a demand factor.

Body 2: Explain the supply / cost factor(s) that explains the coexistence of big and small businesses.

- The size of a business can also be determined the ability of the business to enjoy IEOS i.e. supply / cost factor.

    - Bespoke shirts can only be hand-made a piece at a time while standardised shirts can be mass produced by big shirt making business via the use of machines. The latter would involve huge capital outlay thus afford huge enjoyment of internal economies of scale. For example, the big businesses can enjoy plant internal economies of scale via the use of indivisible but highly efficient shirt making machineries with their large scale of production.

    - On the other hand, small bespoke tailors exist alongside the big shirt making businesses because of the nature of their peronsalised products.

- The coexistence of big and small firms can thus be explained by the nature of the products / goods which is a supply factor.

Evaluative conclusion

- In conclusion, both demand and supply / cost factors are important in explaining the coexistence of big and small businesses. Whether demand or supply factors are more important in explaining the coexistence of big and small businesses depends on:
    - The type / nature of goods considered.
        - For example, if the goods considered are necessity which has huge demand, then whether a business grows big or small depends more on the supply factor such as the ability to enjoy IEOS However, if the goods considered are super luxury such handbags that are handmade with rare materials, even if there is a large demand, some businesses are unlikely to grow big.
    - The importance of services surrounding the goods: For example, for goods where knowledge regarding the use of the goods is important, demand factors might be more important as personalised services to provide such knowledge are important. As such, demand factor might be more important in explaining the coexistence of small independent.

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Levels	Descriptors
E3 **4 - 5**	For an evaluation that contains A synthesis of earlier economic arguments to arrive at **relevant** judgements/decisions (i.e. answer the question). Well-explained criteria-based evaluative comments supported by **accurate** and **clear** analysis to provide **fairness** in views. A good summative conclusion.
E2 **2 - 3**	For an evaluation that contains **Relevant** judgement(s)/decision(s) (i.e. answer the question) that may not follow from earlier economic arguments. Criteria-based evaluative comment(s) supported by analysis to provide **fairness** in views but the comment(s) may not be well-explained, may be unclear and/or may be inaccurate at times.
E1 **1**	For an evaluation that contains **Relevant** but unexplained evaluative judgement(s)/statement(s) i.e. evaluative judgement(s)/statement(s) not supported by analysis or A **relevant** conclusion.