Firms and Decisions

Section C: Essay Guiding Questions

Essay Q1:

Part (a)

- Clarify what is the meaning of impact on the airline operators eg. impact on profits.
- Make reference to the preamble to address the type of cost that have changed and how it affected profits respectively.
- What is the assumption that must be made of the airline operators?
- Support your answer with the use of a firms' diagram and explain the respective costs on profits separately.
- Deduce the overall change in cost for the firm (i.e examine the extent of change in both the variable and the fixed cost) and hence the overall impact on profits.

Part (b)

- Note that the command word is Discuss, hence require limitations and an evaluation to the respective strategies that the firms will adopt in response to above development.
- Key word of "likely respond" typically refer to the strategies adopted by the firms given the changes in demand/ AR and AC.
- Develop at least one strategy to tackle cost changes and one strategy in response to increased competition and how it affects firms' AR.
- Analysis for the respective strategies highlighted should be explained using relevant firms' framework and a discussion of the limitations of the respective strategies *should be developed*

Essay Q2

Part (a)

- You need to first clarify the market structure and the characteristics of the market structure with respect to fast food chain.
- Link the above understanding of how this market structure type influence the AR curve and MR curve and note the assumption of the firm that is that is assumed to be profit maximizing.
- Explain how the respective characteristics mentioned determine the prices and show at least 2 different examples.
- eg. 1 could be how the characteristic of few dominant firms → mutual interdependence results in price rigidity (bring in the kinked demand curve theory) or
- eg.2 how high BTE and imperfect information results in demand / AR remaining high and price inelastic; price setter, and P>MC at the profit maximizing output.
- Note that answer should apply to the context of fast food chains in the analysis.

Part (b)

- Note that command word is "discuss whether", hence a need to explain how it works and limitations for each strategy raised (i.e 2 sided argument)
- Analyse how innovation is a strategy that can be adopted to increase firms' profits (you need to give examples of innovation and to apply to whether this strategy influence the firms' AR or AC- ask yourself if the innovation process or product innovation) + provide limitations to the strategy
- Do the same above with an alternative strategy and its limitations.
- Support your answer with the use of well drawn firms' diagram and make reference to the profit maximising output.
- Note that you have to provide an overall evaluation to the question eg. most effective strategy and substantiate your point

Essay Q3

Part (a)

- Clarify what is meant by the rise in the level of competition – can be measured by the number of firms in the industry.
- Ask yourself which industries you observe the level of competition to be low and which do you observe to be high – based on the context, which market structure do tech companies are likely to operate in?
- Clarify what is meant by the "likely affect" – desirable and undesirable impact on consumers and producers.
- Ask yourself how you can measure the impact on the consumers and producers – what yardsticks/indicators will you use to explain the impact.
- Use relevant diagrams to show how the increase in level of competition affects the indicators/yardsticks that you will be using to explain the impact on the consumers and producers.

Part (b)

- For this question, consider the different types of cognitive biases and explain how firms employ different strategies by tapping on these cognitive biases to respond to the fall in profits as a result of the rise in the level of competition.
- Ask yourself what the objective of a firm is and how can they achieve that objective – when considering strategies to increase profits must explain both revenue and cost strategies; but for this question, which type would be more relevant/applicable?
- Given the command word is 'discuss' – consider what are the different perspectives that you may need to consider aiming for a balanced answer. What will the two sides of the arguments be?
- Link the different cognitive biases that a firm can tap on to increase revenue.
- What are the limitations of these strategies that you raised?
- Note that you need to provide an overall judgement if the firms are successful in increasing profits by tapping on the different cognitive biases – and which is likely to be most effective in the context of rising level of competition.

Essay Q4

Part (a)

- Clarify the objective/s of a firm – does it depend on the market structure they operate in?
- Consider that firms in different market structure may have different objectives – those firms operating in an oligopoly – and hence the way they determine their price and output decisions will differ.
- Consider how you measure competition.
- Link the level of competition to how it affects the profits/ other objectives of the firms – and hence the price and output they choose based on the market structure they operate in.
- Ask yourself what diagrams I can use to illustrate how firms make their price and output decisions in the different market structures when faced with different levels of competition.

Part (b)

- Ask yourself what the different requirements of this question are – "discuss whether consumers will be disadvantaged" due to the lack of competition and "what might be the most appropriate form of government intervention".
- For – "discuss whether consumers will be disadvantaged" due to the lack of competition:
    - Command word "discuss whether" – consider the different perspectives/ two-sides of the argument and what are they?
    - Ask yourself how do you measure the impact on consumers – what yardsticks will you use to measure if consumers are worse off or better off?

- For “what might be the most appropriate form of government intervention”:
    - Key words – “most appropriate” [to determine which is the most appropriate measure must consider at least two measures]
    - What are the limitations of the measures?
- Note that you need to provide a judgement on whether consumers will be worse off from the lack of competition and which is measure is likely to be most appropriate between that two that you explained.