



WEEKLY HOME STUDY PACKAGE - WEEK 1 (05/07/21 – 09/07/21)

Subject	Economics	Year/Level	12
Strand	2 :Microeconomics		
Sub-strand	Market Structure - Oligopoly		
Content Learning Outcome	*Explain oligopoly in terms of features ,performance, advantage and disadvantages. * Use graphs to illustrate the short run and long run situations of oligopoly.		

LESSON NOTES

Oligopoly is a market structure consisting of a few, relatively large firms selling products which are close substitutes.

Features

- There are few large firms competing in the industry.
- There are strong barriers to entry of firms into the industry.
- Firms are inter-dependent on each other.
- Price and output of one firm affects the price and output of the other firms in the industry.

Example : Petroleum service stations eg Mobil, Total, Pacific Energy.

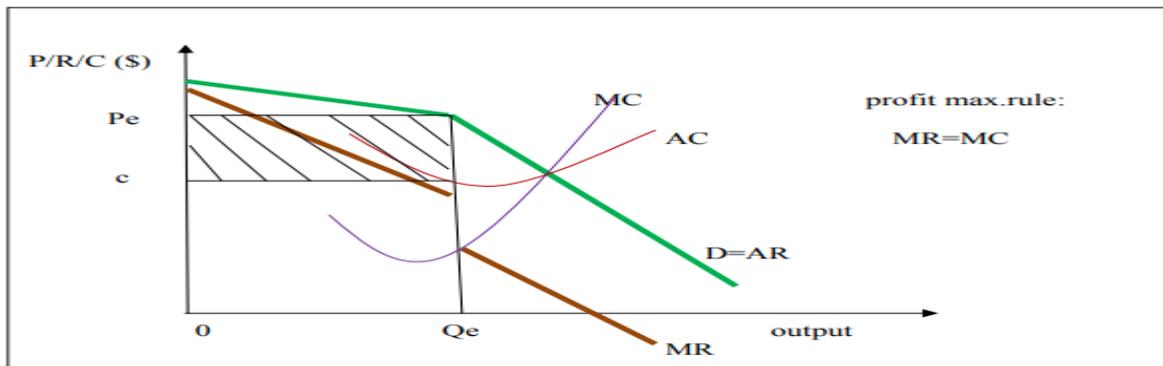
Kinked Demand Curve

Oligopolist faces two possible market demand curve:

1. Highly Elastic- if the firm sets its price above the going market price, it loses customers to its competitors and its sales revenue decreases.
2. Highly Inelastic- if the firm sets its price below the market going price, its competitors follow suit and all firms lose sales revenue.

Types of profits under Oligopoly

Oligopolists mostly make supernormal profits both in short run and long run.



Advantage of Oligopoly

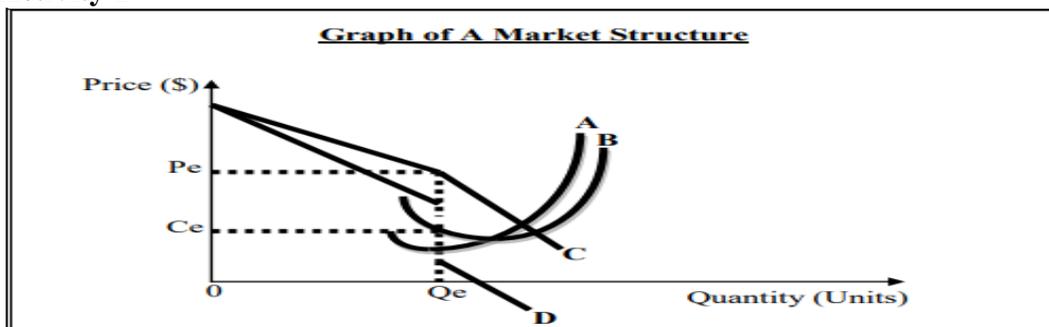
- Research and development undertaken by firms. Each has sufficiently high profits to find such development and innovation. It is advantageous to consumers because of better product quality.
- They are able to enjoy monopoly power through formation of cartels.

Disadvantages of Oligopoly

- There is no guarantee of efficiency
- Firms are unlikely to achieve economies of scale.

- $P > MC$ i.e. mark up pricing leads to misallocation of resources or exploitation of consuming public.

Activity 1



- Identify the type of market structure that is depicted in the above graph. _____ (1 mark)
- Label the curves: A, B, C and D. _____ (2 marks)
- What type of average revenue curve does this market structure have? _____ (1 mark)
- Explain what is meant by the optimal output. _____ (1 mark)

Activity 2

Very occasionally, a major oil company (and their retail outlets) operating in the South Pacific will lower the price of their petrol for a day or two only, to promote awareness of their brand

- State two ways in which oil companies differentiate their product, other than by price. _____ (2 marks)
- Explain why the oil companies lower their price for only a short period of time. _____ (1 mark)
- Describe a barrier to entry that makes it difficult for new firms to enter this market structure. _____ (1 mark)

Short Answers

- Explain oligopoly in terms of its 3 main features. _____ (3 marks)
- Outline one advantage and one disadvantage of operating in oligopoly industry. _____ (2 marks)