CBSE Class–12 economics

Important Questions - Micro Economics 06

Non Competitive Markets

VERY SHORT ANSWER QUESTIONS (1 Mark)

Q1. Which of the following is not the feature of an imperfect competition?

1) Large number of buyers
2) Single seller
3) Homogeneous products
4) Price maker

Ans. (3)

Q2. The demand curve of oligopoly is?

a) Kinked
b) Vertical
c) Horizontal
d) Rising left to right

Ans. (a)

Q3. A monopolist is a price

a) Acceptor
b) Taker
c) Giver
d) Maker

Ans. (b)

Q4. In perfect competition, when the marginal revenue and marginal cost are equal, profit is?

a) Zero
b) Average
c) Maximum
d) Negative

Ans. (c)

Q5. In perfect competition, a firm earns abnormal profit when __________ exceeds the _____________?

a) Total cost, total revenue

b) Average revenue, average cost

c) Total revenue, total fixed cost

d) Marginal cost, marginal revenue

Ans. (b)

Q6. Which of the following type of competition is just a theoretical economic concept, not a realistic case where actual competition and trade take place?

a) Oligopoly

b) Monopoly

c) Monopolistic competition

d) Perfect competition

Ans. (d)

Q7. In monopolistic competition, which of the following curves generally lies below the demand curve and slopes downward?

a) Marginal cost

b) Average cost

c) Average revenue

d) Marginal revenue

Ans. (d)

Q8. The concept of supply curve is relevant only for?

a) Oligopoly

b) Monopoly

c) Monopolistic competition

d) Perfect competition

Ans. (d)

Q9. In the case of a negatively sloping straight line demand curve, the total revenue curve is

a) A rectangular hyperbola

b) Convex to the origin

c) An inverted vertical parabola

d) Concave to the origin

Ans. (c)

Q10. The market structure in which the number of sellers is small and there is interdependence in decision making by the firms is known as

a) Oligopoly

b) Monopolistic competition

c) Monopoly

d) Perfect competition

Ans. (a)

Q11. Cartels exist in

a) Oligopoly

b) Duopoly

c) Monopoly

d) Perfect Competition

Ans. (c)

Q12. Marginal revenue for any quantity level can be measured by the slope of the total revenue curve.

a) False

b) True

c) Can’t say

d) None of these

Ans. (b)

Q13. In monopolistic competition the goods are

a) Durable

b) Differentiated

c) Heterogeneous

d) Homogeneous

Ans. (b)

Q14. Oligopoly having identical products is known as

a) Pure oligopoly
b) Collusive oligopoly
c) Independent oligopoly
d) None of above

Ans. (a)

Q15. Which market have characteristic of product differentiation

a) Monopolistic competition
b) Oligopoly
c) Monopoly
d) Perfect competition

Ans. (a)

SHORT ANSWER QUESTIONS (3 / 4 Marks)

Q16. Equilibrium price of an essential medicine is too high. What can be done to bring the price down only through market forces? Explain the series of changes that will occur in the market.

Ans. One possible step can be to reduce tax on medicine or subsidy which will eventually help to bring down the price and in turn increase the supply. Demand remaining unchanged, a situation of excess supply will emerge which will lead to competition between sellers. This will lead to fall in price of the medicine.

Q17. Market for a necessary good is competitive in which the existing firms are earning supernormal profits. How can the policy of liberalisation by the government help in making the market more competitive in the interest of the consumers? Explain.

Ans. The policy of liberalization encourages new firms to enter the industry. This raises output of the industry as a whole. Total market demand remains unchanged and price starts falling. At the end result, consumers get goods at much cheaper price.

Q18. Explain the effects of a 'price ceiling'.

Ans. Black marketing may be termed as a direct consequence of price ceiling. It implies a situation whereby the commodity under the government's control policy is illegally sold at a higher price than the one fixed by the government. It may primarily arise due to the presence of consumers who may be willing to pay higher price for the commodity than to go without it.

Q19. Explain the effects of a 'price floor'.

Ans. Buffer stock is an important tool in the hands of government to ensure price floor or minimum support price. If in case the market price is lower than what the government feels should be given to the farmers or producers. This will make them purchase the commodity at higher price from the farmers or producers so as to maintain stock of the commodity with itself to be released in case of shortage of the commodity in future.

Q20. Market for a good is in equilibrium. Demand for the good "increases". Explain the chain effects of this change.

Ans. 'Given equilibrium, demand increases', the chain effects of the change are as follows:-

1. Price remaining unchanged, excess demand emerges
2. This leads to competition among buyers causing price to rise
3. Rise in price causes fall or contraction in demand and rise or expansion in supply
4. The price continues to rise till the market is in equilibrium again at a higher price

LONG ANSWER QUESTIONS (6 Marks)

Q21. Distinguish between collusive and non-collusive oligopoly. Explain how the oligopoly firms are interdependent in taking price and output decisions.

Ans. Below mentioned points focused on the difference between collusive and non-collusive oligopoly:-

Basis of Difference	Collusive Oligopoly	Non-collusive Oligopoly
Meaning	In this, firms decide to collude together and not to compete with each other	In this, firms do not collude but they compete with each other
Behaviour of firms	In this, all firms behave as a single entity or they show monopolistic behaviour	In this, all firms behave independent identity
Aim	This aims at maximising collective profits than individual profits	This aims at maximising own profits and decides how much quantity to be produced

Also under oligopoly, there is a high degree of interdependence between the firms. Price and output policy of one firm has an important impact on the price and output policy of the rival firms in the market. Reason is there are few firms which are huge in size. When one company lowers its price, the rival firms may also lower the price to beat the competition. On the other side, if one company raises the price of a particular commodity, the rival firms may take decision accordingly. Companies while taking any decision on price and output, always keep in mind the possible reaction of the prevailing rival companies in the market.

Q22. Explain the implications of the following features of oligopoly market.

(i) Few firms **(ii) Barriers to the entry of firms**

Ans. The implications are as follows:

1. When there are few firms in the market, this is called oligopoly. However, each firm is so big that it controls a specific consumer segment in the market. It is so important that price or output policy of one firm directly affect the price and output policy of rivals. Hence, it is also not possible to draw a specific demand curve for an oligopoly firm. We have seen that oligopoly firms tend to form trusts and cartels with a view to avoid price competition in the market. In this way they enjoy monopoly profits. But this is very few in the overall market.

2. When there are barriers to the entry of firms, it is always more. These barriers are almost similar to those under monopolistic situations. Entry of a new firm is extremely difficult, but possible. These barriers can be natural like requirements of huge capital or operating at minimum average cost of artificial barriers like patent rights. They mainly prevent new entrants in the market.

Q23. Explain the implications of the following:

(i) Products under monopolistic competition
(ii) Large number of sellers under perfect competition

Ans.

1. Implication when products are under monopolistic competition. It is a very distinct feature. A product is often differentiated by way of trade marks or brand name, size, quantity etc. the differentiated product are close substitutes of each other. E.g. Bagh bakri tea and Tajmahal tea. Because of product differentiation, each firm can decide its price policy independently. So, each firm has a partial control over price of its product. This is done to attract buyers of rival companies. Also because these firms produce extra quantity, their products are different, they have always some loyal customer who buy these products and purchase them only.

2. When there are large number of sellers in the market. There are always more number of buyers and sellers in an economy. As a result, size of each

economic agent is so small as compared to the market that they cannot influence the price through their individual actions.

Q24. Distinguish between perfect competition and monopolistic competition

Ans. Following are the difference between perfect competition and monopolistic competition:-

Basis of difference	Perfect competition	Monopolistic competition
Number of buyers and sellers	In this, there are huge numbers of buyers and sellers in the market	In this, there are many buyers and sellers, but not like perfect competitive market
Products	Mainly homogeneous products	Mainly different kinds of product
Slopes of firm's DD curve	In this, there is horizontal straight line (AR = MR)	In this, it slops downward with high elasticity (AR > MR)
Mobility	In this, there is perfect mobility	In this, there is an imperfect mobility
Selling cost	In this, it is not very important, it is almost identical	In this, it is very significant as it enjoys monopoly prices
Degree of price control	There is absolutely no control over priced	Here, it is partially controlled

Q25. Explain the implications of the following features of perfect competition.

(i) Homogenous products

(ii) Freedom of entry and exit to firms.

Ans.

1. When there are homogenous products, its implications are great. This literally means the products are identical in nature, quality, size, shape and colour. So no producer is in a position to charge a different price of the product. A uniform price prevails in the market. In a perfectly competitive market, commodity must be always identical. Thus, it gives consumer or

buyers absolutely no reason to prefer any particular product of one seller above another.

2. **When there is freedom of entry and exit of firms. This completely depends on any firm when to exit or entry in the market. In this situation, firms in the long run can earn only normal profits, say TC=TR, AR=MR & P=MC. In extra cases, normal profits are earned, new firms will join the industry thus resulting in increase of market supply. Marek price will fall, extra normal profits will be wiped out. In case of extra normal losses, some of the exiting firms will leave the industry. Marek supply will decrease, and market price of that commodity will increase. Extra normal losses will be wiped out.**