

*Edexcel A-level Economics exam practice answers*

14: Market structures

- 1 (a) Price discrimination occurs when a firm charges different people different prices for the same good or service. The price of the return flight from London to Sydney is just £717 on Monday 6th August but £1250 on 9th October. This means there are effectively two submarkets, each paying a different price, but the service provided is exactly the same although on a different date. [5]

(b) **KN:** 2 marks; **AP:** 2 marks; **AN:** 2 marks; **EV:** 2 marks

KN & AN The conditions necessary for price discrimination include:

- At least two submarkets
- Different price elasticities of demand in each market
- No seepage between each market
- Cost of separating the market must be less than the revenue gained from price discrimination

AP

- Reference to data

EV

- Some would argue that this is product differentiation rather than price discrimination because the flights are on different dates. [8]

(c) **KAA** 9 marks; **EV** 6 marks

KAA:

If successful, price discrimination increases the profitability _____



of firms. Some of the benefits of increased profits are:

firms can cross-subsidise loss-making areas; they can fund research and development, which might increase future profitability; they can pay workers more, which might lead to improved morale and productivity

Evaluation:

In evaluation, you might consider why price discrimination might not work:

- the high costs of preventing seepage between the submarkets (apply to airlines) [15]
- bad publicity, e.g. if a firm is being seen to 'rip off' the customer
- it is hard to judge the different PEDs, and whether they are at a significantly different level for the different submarkets
- higher prices might mean that customers move away in the long term.

2 (a) **Correct answer: B** 76.3% [1]

(b) Markets dominated by a few firms are oligopolies. Two characteristics are interdependence between the firms and high barriers to the entry of new firms e.g. economies of scale. [4]