

**SUVA SANGAM COLLEGE**

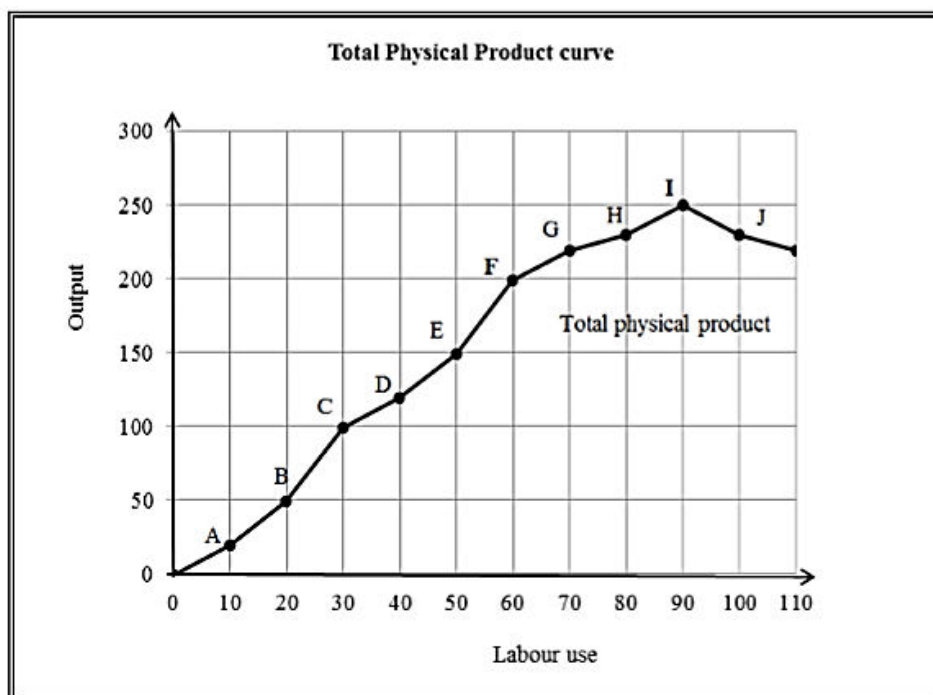
**YEAR 12**

**ECONOMICS**

**WORKSHEET 4**

**Question 1 (Based on sub strand – Producer and Production)**

Study the graph given below and with your own knowledge answer questions (i) and (ii).



(i) Describe the shape of the Total Physical Product Curve using the concept of the law of diminishing returns.

(ii) Calculate the value of:  
I. Average Product at point I

II. Marginal Product at point F

**Question 2 (Based on sub strand – Economic Problem and the Production Possibility Curve)**

1. Use the information given below to answer part a-d

Possibility	A	B	C	D	E	F	G
Television (00s)	22	19	17	15	11	6	0
Cars (00s)	0	1	2	3	4	5	6

a) If the economy is currently producing at combination B, calculate the opportunity cost of producing 3000 more cars. (show full working)

b)  $1000 + 3000 = 4000$  that is movement from point B to point E  
 $19000 - 11000 = 8000$  television

b) If the economy is producing at combination C and wants to move to point F, what will be the opportunity cost of each additional unit of car? (show full working)

*Point of movement is from C to F*

*Television 17 to 6 that is forgoing 11000*

*Cars 2 to 5 that is gaining 3000*

*Additional opportunity cost = F/G = 11000/3000 = 3.67 units of cars*

### **Question 3 (Based on sub strand – Market Structure)**

Based on the question given below, write an essay of 180 – 200 words to answer the question. (Use graphs where possible to illustrate your answers)

**The theory of the kinked demand curve is central to the understanding of the oligopoly market structure.**

Evaluate the above statement with reference to:

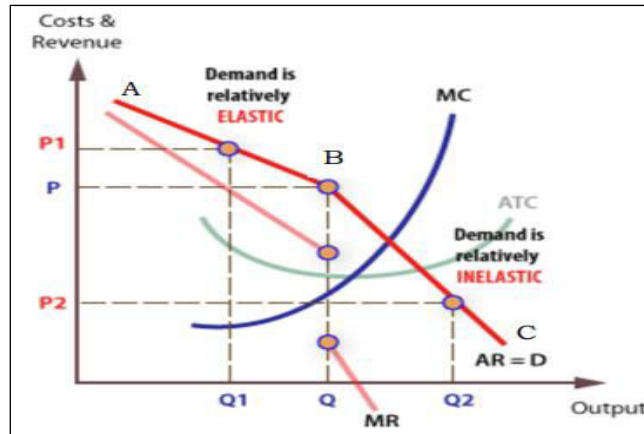
- any three features of an oligopoly;
- why the oligopolist's demand curve is kinked and; (Use a graph to illustrate your answer
- the shape of its marginal revenue and marginal cost curves.

#### Oligopoly market structure

*Oligopoly market structure is one that has few large firms supplying goods and services to the whole market. Thus, this essay will elaborate on three features of an oligopoly, the shape of the oligopolies' demand curve and the shape of its marginal revenue and marginal cost curves.*

*An oligopoly market structure comprises of few but large firms. For example, FMF, Punjas and Nestle. There are many features of an Oligopoly market structure. Its first feature is that it has few large firms which dominate supply to an entire market. Secondly, each firm produces differentiated products. The third feature is that it is very difficult for a new firm to enter the market because the start up or sunk cost is very high.*

*Moving on, an Oligopoly has a kinked demand curve. This is based on the idea that an Oligopoly faces two possible market demand curves. One is highly elastic if the firm sets its price above the market price and the other highly inelastic if the firm gets its price below the going market price. Kinked demand curve applies to the situation where one Oligopoly believes it has developed such a strong brand allegiance through advertising or product differentiation that consumers will pay whatever price it charges. In general, rival firms will not match price rises but will always match price reductions. This is illustrated in the graph below.*



Furthermore, while studying the shape of the Oligopolies marginal revenue and marginal cost curves, it can be concluded that because average revenue curve is made up of two separate curves, the marginal revenue curve has a line of discontinuity. This means that while MC may vary between MC1 and MC2 the profit – maximizing output ( $MC = MR$ ) remains unchanged at OQ. Given the existence of a kinked demand curve the Oligopoly is more likely to engage in non-price competition (than in price competition). Such a strategy may also be an effective method of keeping new rivals out of the industry.

To conclude, the features of an oligopoly market structure are, it has few large firms selling differentiated products. There is very high sunk cost involved setting up an oligopoly market structure. Additionally, oligopoly market structure has a kinked demand curve due to price rigidity. Also, the oligopoly has two average revenue curves and discontinuity in marginal revenue curve due to price rigidity. .

(Approximately 200 words)