IGCSE ECONOMICS · 1.2 BUSINESS ECONOMICS · CHAPTER 20 · PAPER 1

Monopoly

Topic question sheet L20 | **Total: 30 marks** | **Time: 35 minutes** | **Student Book pp. 148–154**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 Which of the following is a barrier to entry? **(1)**

A Diseconomies of scale
B High start-up costs
C Low labour productivity
D Inflation

2 Which of the following is a feature of monopoly? **(1)**

A Consumers have lots of choice
B All firms are price takers
C A large number of sellers
D Barriers to entry

3 A patent gives a firm the sole right to sell a new product for up to: **(1)**

A 5 years
B 10 years
C 20 years
D 50 years

4 A market where one firm can supply everyone more cheaply than several firms is a: **(1)**

A local monopoly
B natural monopoly
C cartel
D competitive market

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 Define **monopoly**. **(1)**

6 Calculate the percentage increase in the average monthly household bill since 2015. You are advised to show your working. **(2)**

7 State **two** barriers to entry shown in the extract. **(2)**

8 Explain why a monopolist is a **price maker**. **(3)**

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Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: Island Power Company

Island Power is the only electricity supplier on a small island. The government gave it a 25-year licence in 2010. Building a second power station and grid would cost about US$600 million.

Since 2015 the average household bill has risen from US$80 to US$112 a month. Island Power's profits doubled over the same period. Customers complain about frequent power cuts and a call centre that is rarely answered. The company says the high profits have paid for a new solar farm, which will lower costs in future.

Fictional case, written for this sheet.

9 With reference to the extract, analyse **two** disadvantages to consumers of Island Power's monopoly. **(6)**

10 With reference to the extract, evaluate whether Island Power's monopoly is in the interests of the island's economy. **(12)**

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Mark scheme: Monopoly

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *Which of the following is a barrier to entry? (1 mark)*

Answer: B (High start-up costs). High set-up costs keep new firms out.

2 *Which of the following is a feature of monopoly? (1 mark)*

Answer: D (Barriers to entry). Barriers keep rivals out.

3 *A patent gives a firm the sole right to sell a new product for up to: (1 mark)*

Answer: C (20 years). Up to 20 years.

4 *A market where one firm can supply everyone more cheaply than several firms is a: (1 mark)*

Answer: B (natural monopoly). E.g. water or rail networks.

Section B

5 *Define monopoly. (1 mark)*

A situation where there is one dominant seller in a market (1).

6 *Calculate the percentage increase in the average monthly household bill since 2015. You are advised to show your working. (2 marks)*

Working: (112 − 80) ÷ 80 × 100 (1).

Answer: 40% (1).

7 *State two barriers to entry shown in the extract. (2 marks)*

Legal barrier: 25-year government licence (1).

High start-up costs: US$600 million for a rival power station (1).

8 *Explain why a monopolist is a price maker. (3 marks)*

Point: it is the dominant/only seller (1).

Development: consumers have no close substitute (1), so it can set the market price by restricting supply (1).

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Section C

9 *With reference to the extract, analyse two disadvantages to consumers of Island Power's monopoly. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): higher prices; poor quality/service (inefficiency).

Application (2): bills up 40% from US$80 to US$112; frequent power cuts, call centre rarely answered.

Analysis (2): no substitute, so households must pay; no competition, so no incentive to improve service or cut costs; profits doubled at consumers' expense.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, evaluate whether Island Power's monopoly is in the interests of the island's economy. (12 marks · levels)*

For: natural monopoly avoids wasting US$600m on duplication; profits fund the solar farm (innovation), lowering future costs; economies of scale.

Against: bills up 40% and profits doubled (exploitation); power cuts damage businesses; no incentive to be efficient.

Judgement: monopoly may be the efficient structure, but only with a regulator to cap prices and set service standards; depends on whether solar savings are passed on.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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