IGCSE ECONOMICS · 1.2 BUSINESS ECONOMICS · CHAPTER 21 · PAPER 1

Oligopoly

Topic question sheet L21 | **Total: 30 marks** | **Time: 35 minutes** | **Student Book pp. 155–162**

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 possible disadvantage of oligopoly? **(1)**

A Lower prices
B Collusion
C More choice
D More innovation

2 Which of the following industries is most likely to be an oligopoly? **(1)**

A Chicken farming
B Petrol
C Restaurants
D Flower selling

3 When one firm's price cut forces rivals to cut prices too, this shows: **(1)**

A a natural monopoly
B interdependence
C a patent
D diseconomies of scale

4 OPEC is an example of a: **(1)**

A cartel
B pure monopoly
C price taker
D niche market

Section B: Short answers

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

5 Define **oligopoly**. **(1)**

6 Calculate the percentage fall in the price of a bag of cement after the fine. You are advised to show your working. **(2)**

7 State **two** forms of non-price competition. **(2)**

8 Explain why prices in an oligopoly often stay stable for long periods. **(3)**

© Doshonomics. Written in the style of the exam. Not an official Pearson paper or mark scheme.

Section C: Data response

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

Extract: Cement in Ruralia

Three firms supply 88% of the cement in the fictional country of Ruralia: BuildCo (41%), StrongMix (28%) and Granite (19%). Many small local producers share the rest. A new cement plant costs about US$250 million.

For five years the price of a 50 kg bag stayed at US$9.00. In 2024 investigators found that the three firms had met secretly to agree prices. After they were fined, StrongMix cut its price to US$7.20 and the others quickly followed.

Fictional case, written for this sheet.

9 With reference to the extract, analyse why the cement market in Ruralia is an oligopoly. **(6)**

10 With reference to the extract, evaluate whether the government should do more to increase competition in Ruralia's cement market. **(12)**

© Doshonomics. Written in the style of the exam. Not an official Pearson paper or mark scheme.

IGCSE ECONOMICS · 1.2 BUSINESS ECONOMICS · CHAPTER 21 · PAPER 1

Mark scheme: Oligopoly

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 possible disadvantage of oligopoly? (1 mark)*

Answer: B (Collusion). Firms may agree to restrict competition.

2 *Which of the following industries is most likely to be an oligopoly? (1 mark)*

Answer: B (Petrol). A few large firms dominate petrol supply.

3 *When one firm's price cut forces rivals to cut prices too, this shows: (1 mark)*

Answer: B (interdependence). Firms' actions affect each other.

4 *OPEC is an example of a: (1 mark)*

Answer: A (cartel). It agrees output quotas.

Section B

5 *Define oligopoly. (1 mark)*

A market dominated by a few very large producers (1).

6 *Calculate the percentage fall in the price of a bag of cement after the fine. You are advised to show your working. (2 marks)*

Working: (7.20 − 9.00) ÷ 9.00 × 100 (1).

Answer: −20% / a 20% fall (1).

7 *State two forms of non-price competition. (2 marks)*

Any two (1 each): advertising; promotions/coupons; loyalty cards; branding; product differentiation; free offers.

8 *Explain why prices in an oligopoly often stay stable for long periods. (3 marks)*

Point: firms fear a price war (1).

Development: if one cuts price, rivals must follow (1), so all lose revenue and profit; the leader sets the price and others follow (1).

© Doshonomics. Written in the style of the exam. Not an official Pearson paper or mark scheme.

Section C

9 *With reference to the extract, analyse why the cement market in Ruralia is an oligopoly. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): few large firms dominate; barriers to entry; interdependence.

Application (2): three firms have 88%; a plant costs US$250m; rivals followed StrongMix's cut.

Analysis (2): high start-up costs keep entrants out, so the big three keep their share; each must react to the others' prices.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, evaluate whether the government should do more to increase competition in Ruralia's cement market. (12 marks · levels)*

For: collusion kept prices at US$9.00; fine led to a 20% cut, showing consumers were overcharged; cement is vital for building and the economy.

Against: the price war already lowered prices; large firms gain economies of scale; new entrants face US$250m costs anyway; price war may squeeze out a firm.

Judgement: stronger enforcement against collusion is key rather than forcing new entry; depends on whether prices stay low after the fine.

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.

© Doshonomics. Written in the style of the exam. Not an official Pearson paper or mark scheme.