**COMPETITION** means

• a large number of producers

• new firms can set up in the industry

• firms are knowledgeable about the activities of their competitors.

How do firms compete?

1. PRICE - not too high or too low
2. QUALITY
3. INNOVATIONS e.g. new ideas
4. PROMOTIONS e.g. special offers
5. ADVERTISING
6. BRANDING e.g. creating an image / identity (Nike, Burberry)

Successful competition means that the business may

• Survive in the market

* increase profits
* increase market share
* make more dividends for shareholders
* Unsuccessful competition may mean the opposite

**Check I’ve got it**

a. Who are the main competitors in the fast food market in your locality?

b. Consider the fast food outlets near you. How do they compete for customers?

c. Why do you think that competition is good for the consumer? Try to think of 3 reasons.

d. What do you understand by branding (clue Virgin, Nike)? What are the benefits of branding to a business?

**If I’ve really got it, then…**

e. Why does competition force a business to become more efficient?

**Monopoly**

Monopoly is a situation in which the market is dominated by one seller or producer. By law a monopoly occurs if a firm has a market share of 25%.

**PROBLEMS OF MONOPOLY**

• Consumers may pay higher prices due to the lack of competition

•Consumers may have less choice

• Firms may not be very efficient with their resources because there is no need to reduce costs
• Less innovation (new products)

**BENEFITS OF MONOPOLY**

• The firm should make higher profits

• The firm may use these to invest in new products or improve existing products.

HOWEVER firms can only increase their prices up to a point

**HOW DO FIRMS KEEP THEIR MONOPOLY?**

Imagine that Stagecoach has a 95% market share in local area. This means that 95% of buses are operated by Stagecoach. How could they keep this power?

\* Cost Barriers It is expensive for other companies to set up

\* Advertising The may spend lots of money building up a reputation.

\* Economies of scale Larger firms generally have lower costs per unit. They can cut their prices to force out competition

**CARTELS**

A cartel causes similar problems to a monopoly. 3 or 4 firms may dominate an industry, in this case they could agree to keep the price at a high level in order to each make a healthy profit. They may eventually be investigated and punished by the OFFICE OF FAIR TRADING.

**Check I’ve got it…**

a. If you travel from Derby to London you must go by Midland Mainline. What are the possible problems for you?

b. What prevents new firms competing in the chemical industry?

 **And if I’ve really got it…**

c What is meant by barriers to entry in an industry?

d In what ways could a monopoly be (a) more efficient (b) less efficient than several firms competing against each other.