This chapter looks at imperfect markets. An imperfect market is one in which at least one firm has market power. Imperfect markets can give rise to forms of monopolistic competition. The chapter shows how to determine the imperfectly competitive firm's profit-maximising output.

Resources
- Learner’s Book
- Magazines
- Newspapers
- Internet
- Statistics from the Department of Labour and StatsSA

Background information
Learners have already discovered that there is only one seller in the imperfect market. They have studied the main characteristics of monopolistic competition in Grade 11 and have also learnt about oligopolies.

Teacher’s tips
Write all the different concepts and definitions on the board, then put them on a poster so that learners do not forget these concepts.

While teaching, take note of all those learners who appear to be having difficulty and give them individual attention. If you have a class discussion, make sure that you allow every learner to participate.

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<thead>
<tr>
<th>Unit no.</th>
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<th>TG page</th>
</tr>
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<td>4</td>
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Unit 1 The dynamics of imperfect markets, with the aid of cost and revenue curves

Learner’s Book pages 161–169

Unit overview
• This unit describes the revenue curves of imperfectly competitive firms.

Teaching guidelines
• This unit continues the discussion on perfect and imperfect markets, with the focus on imperfect markets. Ask the class for quick definitions of both types of markets.

Activity 1 Interpret the dynamics of imperfect markets

Learner’s Book page 169

Guidelines to implement this activity
• This is an individual activity.

Suggested answers

1.1 False ✓
1.2 True ✓  \((2 \times 1 = 2)\)

2.1

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(12)
**Unit 2  Monopolies**

*Learner's Book pages 170–173*

**Unit overview**
- This unit describes the characteristics and profits of the monopoly market structure.

**Teaching guidelines**
- Begin by asking learners what they know about monopolies. Have they heard of the term, and do they know of any monopolies in their areas or in the country as a whole? For example, are the local taxi operators all from one organisation, or is there competition?

**Activity 2  Discuss the monopoly market structure**

*Learner’s Book page 173*

**Guidelines to implement this activity**
- This is an individual activity.
- Go through the answers with the whole class, or ask learners to mark the exercise themselves and record the answers on the board.

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**Assessment guidelines**
- This activity is intended for informal assessment.
- Use the suggested answers supplied above to assess learners informally. Allocate learners a mark out of 22 and give them feedback on their performance to prepare them for formal assessment.
Suggested answers

1.1 True ✓
1.2 True ✓
1.3 False ✓  
2.1 The term ‘complete barriers to entry’ means that it is impossible for other sellers to enter the industry ✓✓. (3 × 1 = 3)
2.2 Because it can change the market price by changing the quantity it supplies ✓✓. (2)
2.3 If the market demand is so low that the monopolist cannot sell the output at a profit ✓✓. (2)
2.4 The equilibrium price is higher ✓✓ and the equilibrium quantity is lower ✓✓. (4)
2.5 The second characteristic is that there is a single seller ✓✓. There is one firm in the industry and this firm is responsible for the total supply ✓✓. The second characteristic is that there is a complete barrier to entry into the industry ✓✓. This barrier may be made up of a number of barriers: A firm may be the only owner of a raw material. A firm may be licensed by the government to be the only producer of product. A firm may have the sole right to produce a product as a result of a patent ✓✓. The monopolist firm has a unique product and there are no near substitutes for this product ✓✓. There are many buyers, which means that the buyers have no market power ✓✓. (any 4 × 2 = 8)
3 The most important differences are to do with the number of sellers and barriers to entry. The monopoly industry consists of a single seller ✓✓ while the perfectly competitive industry consists of many sellers ✓✓. Therefore, the monopoly firm has market power. In the monopoly market, there are complete barriers to entry ✓✓, while in the perfectly competitive market there are none ✓✓. The monopolist produces less output at a higher price ✓✓ and is productively inefficient compared to the perfectly competitive firm ✓✓. (any 4 × 2 = 8)  

Assessment guidelines

• This activity is intended for informal assessment.
• Use the suggested answers supplied above to assess learners informally. Allocate learners a mark out of 29 and give them feedback on their performance to prepare them for formal assessment.

Unit 3 Oligopolies

Learner’s Book pages 174–179

Unit overview

This unit outlines the characteristics of the oligopoly market structure, which includes collusion and non-price competition. Learners will compare oligopoly and perfectly competitive market structures.
Teaching guidelines

• You can begin the lesson by reminding learners of what they learnt in Grade 11 about oligopolies.
• Ask the class for examples of oligopolies in South Africa. For example, the television, cell phone and telephone industries are oligopolies. Let them identify the major players in these and other industries.
• Make sure that all learners participate, and encourage group discussion.

Activity 3 Analyse examples of interdependence and collusion

Learner’s Book page 177

Guidelines to implement this activity

• This activity can be done individually or in groups of four.
• If you are doing this as a group exercise, divide learners into pairs of two and assign each pair a group task, for example, reporting back to the class or taking notes.

Suggested answers

1 Few producers ✓✓; barriers to entry ✓✓; interdependency ✓✓ (6)
2 An airline will try and raise prices ✓✓, and if the other airlines don’t follow, it will bring its prices back down again ✓✓. An airline will introduce a new service (or fee) ✓✓ and the other airlines generally copy it ✓✓. (8)
3 With the permission of the Department of Trade and industries ✓✓; unofficially through backdoor arrangements ✓✓; price signalling ✓✓ (6) [20]

Assessment guidelines

• This activity is intended for informal assessment.
• Use the suggested answers supplied above to assess learners informally. Allocate learners a mark out of 20 and give them feedback on their performance to prepare them for formal assessment.
• Or use the checklist below to assess learners. Give learners feedback on their performance to prepare them for formal assessment.

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<th>Criteria</th>
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<td>correctly identified the answers in the article</td>
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<tr>
<td>allowed each learner in their group to participate and contribute</td>
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<tr>
<td>offered comments and own opinion</td>
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</table>
Activity 4  Explain the oligopoly market structure

Learner’s Book page 179

Guidelines to implement this activity

• This is an individual activity.
• In Question 4, the examples will vary. Award marks for any applicable examples.

Suggested answers

1.1 imperfect ✓

1.2 interdependent ✓

1.3 few ✓

1.4 non-price competition ✓

(4 × 1 = 4)

2 Collusion means that sellers get together and agree on the price that they will all charge for their product ✓✓. (2)

3 Brand loyalty is when consumers are loyal to a brand and they choose to buy it even when it is more expensive than other similar brands which are very good substitutes ✓✓. For example, Apple computers and Coca Cola ✓✓ (any applicable example). (4)

4 The main characteristics are few firms ✓✓ (with any applicable example ✓✓); differentiated product ✓✓, for example, non-price competition (product differentiation and proliferation, and advertising) ✓✓; barriers to entry ✓✓, for example access to raw materials and licences ✓✓; firms are interdependent ✓✓, for example, a firm will take decisions based only on what it thinks the other firms in the industry will do in response ✓✓. (8)

5 The decisions that an oligopoly firm takes with respect to quantity, marketing strategies, location and other issues ✓✓ depend largely on what it thinks the other firms in the industry will do in response to its actions ✓✓. Given that there are few large firms in the industry, each of the firms is aware of the other firms and has a good idea of what they are doing ✓✓. (6)

6 In oligopoly markets, there are a few firms, and in the perfect market there are many firms producing a product ✓✓. Oligopoly markets produce a differentiated product, while perfect markets produce an identical product ✓✓. In an oligopoly, there are barriers to entry, and in the perfect market there are no barriers to entry ✓✓. The equilibrium price is higher and the equilibrium quantity is lower in an oligopoly ✓✓. (8)

7 Firstly, oligopoly firms use some of their economic profits to develop new products ✓✓. Secondly, consumers like to be able to choose between products. They like the choice that results from product proliferation and differentiation ✓✓. (4)

Assessment guidelines

• This activity is intended for informal assessment.
• Use the suggested answers supplied above to assess learners informally. Allocate learners a mark out of 36 and give them feedback on their performance to prepare them for formal assessment.
Unit 4  
**Monopolistic competition**

**Unit overview**
- This unit continues the discussion on imperfect markets by describing monopolistic competition. Learners will compare the monopolistic competitive and perfectly competitive market structures.

**Teaching guidelines**
- Learners were introduced to monopolistic competition in Grade 11. Check their knowledge by having a quick class discussion on what they know about monopolies.

**Activity 5**  
**Discuss monopolistic competition**

**Guidelines to implement this activity**
- This is an individual activity.

**Suggested answers**

1.1 A ✓
1.2 B ✓
1.3 A ✓
1.4 A ✓
1.5 C ✓
1.6 C ✓

2.1 Monopolistically competitive firms produce differentiated products ✓ ✓, and perfect competitive firms produce homogeneous products ✓ ✓. (4)

2.2 Monopolistically competitive firms use advertising to increase the demand for their product ✓ ✓ and to make the demand for their product more price inelastic ✓ ✓. (4)

3.1

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</table>

3.2 Three units ✓ ✓ (2)
3.3 Normal profit ✓ ✓
3.4 No ✓ ✓. The firm is productively efficient at four units of output ✓ ✓.
3.5

Assessment guidelines

- This activity is intended for informal assessment.
- Use the suggested answers supplied above to assess learners informally. Allocate learners a mark out of 50 and give them feedback on their performance to prepare them for formal assessment.