

**A LEVEL ECONOMICS**  
**PRACTICE MCQS**  
**BUSINESS ECONOMICS**

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**Oligopoly**

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## A Level Economics Practice MCQs – Oligopoly

### Question Number 1

Which of the following is the most likely reason for a breakdown in collusive behaviour between firms in an oligopoly?

- A The existence of economies of scale ☐
- B Reduced power of the Competition and Markets Authority ☐
- C A chance for one of the colluding firms to gain some short-term profit ☐
- D A change in business objectives to revenue maximisation ☐

### Question Number 2

A small town has two car parks in its town-centre, uPark and Park'n'Go. The payoff matrix below shows how the profits of the two car parks vary depending on whether they charge high daily parking prices or low daily parking prices.

uPark	Park'N'Go	
	High Daily Charge	Low Daily Charge
	High Daily Charge	Low Daily Charge
	(£8m, £8m)	(£12m, £12m)
	(£12m, -£1m)	(-£1m, £8m)

Which of the following statements is true?

- A The Nash Equilibrium is for both car parks to set a High Daily Charge ☐
- B Neither firm has a dominant strategy ☐
- C If the firms were to collude, their joint profits would be £12m greater than if they were to behave competitively ☐
- D There are two Nash equilibria ☐

### Question Number 3

When firms agree to fix prices high, this is an example of:

- A Predatory pricing ☐
- B Overt collusion ☐
- C Tacit collusion ☐
- D Limit pricing ☐

### Question Number 4

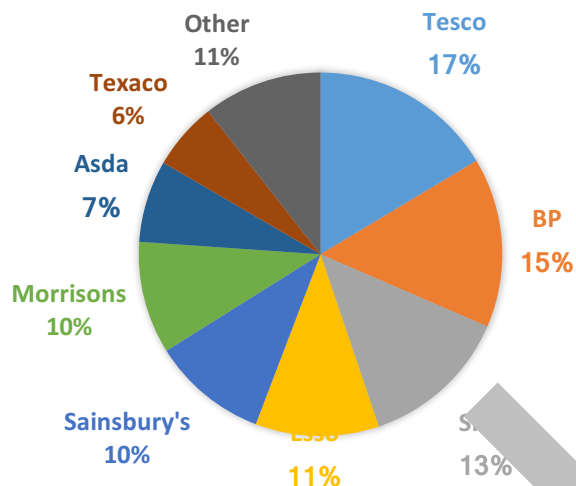
Which of the following characteristics is always present in an oligopolistic industry?

- A Non price competition ☐
- B Collusion ☐
- C Interdependence between firms ☐
- D Price stability ☐

Question Number 5

The pie chart below shows the market share (by fuel volume sold) of UK petrol retailers in 2016.

**PETROL RETAIL MARKET SHARE 2016**



Which of the following statements is true?

- A The petrol retail market is perfectly competitive
- B The five-firm concentration ratio is 55%
- C It has a very low level of concentration
- D The three-firm concentration ratio is 45%

Question Number 6

There are two fruit smoothie making companies located in a large railway station – Juice Me and Smooth Operator. The payoff matrix below shows their possible daily outcomes depending on whether they choose to set high prices or low prices.

		Smooth Operator	
		High Price	Low Price
Juice Me	High Price	(£1500 , £1500)	(£800 , £1800)
	Low Price	(£1800 , £800)	(£1000 , £1000)

Assuming that they are initially operating a business strategy in which each company earns £1500 per day, what change in strategy would result in increased revenue for Smooth Operator?

- A The firms will collude to set a high price
- B Both firms will behave competitively and choose to set a low price
- C Smooth Operator will set a low price and Juice Me will set a high price
- D Juice Me will set a low price and Smooth Operator will set a high price

## A Level Economics Practice MCQs – Oligopoly

### Question Number 7

The Codfather and First Plaice are the only two fish and chip shops in a small town; a payoff matrix showing their revenue at different price levels is shown below. Assume that demand for fish and chips is price inelastic.

		First Plaice	
		High Price	Low Price
Codfather	High Price	W	X
	Low Price	Y	Z

Which strategy combination would result in maximum revenue for the two fish and chip shops?

- A Both firms will behave competitively and choose to set a low price
- B The firms will collude to set a high price
- C The Codfather will set a low price and First Plaice will set a high price
- D First Plaice will set a low price and the Codfather will set a high price

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### Question Number 8

Which of the following scenarios would likely prevent a cartel from being successful in the long term?

- A The cartel produces a homogeneous product
- B Barriers to entry are low
- C The demand for the cartel's product is strongly price inelastic
- D Legislation against cartels is effective

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### Question Number 9

Dominant firms in an oligopoly anticipate that there will be new entrants to their market. Which of the following scenarios is likely to increase the chances of new firms entering the market?

- A Existing firms raise their prices
- B Existing firms lower their prices
- C Existing firms carry out more advertising
- D The government introduces a new regulation to the industry

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### Question Number 10

A market structure has the following characteristics: branding, non-price competition, and barriers to entry. What is the likely market structure?

- A Perfect competition
- B Monopoly
- C Oligopoly
- D Monopolistic competition

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### Question Number 11

Firm A is a tenpin bowling operator and firm B is a chain of pizza restaurants and both are considering opening an outlet in a city. The matrix below shows their respective payoffs from two locations:

		Firm B	
		Location X	Location Y
Firm A	Location X	£15m, £10m	£3m, £3m
	Location Y	£3m, £3m	£10m, £15m

Option	Firm A	Firm B
1	Location X	Location X
2	Location X	Location Y
3	Location Y	Location X
4	Location Y	Location Y

The Nash equilibrium/a in this case are:

- A 1 only
- B 4 only
- C 1 and 4
- D 2 and 3

### Question Number 12

Based on the data provided below, it can be concluded that the virus market would best be modelled by:



Excludes Windows Defender

- A Monopoly
- B Duopoly
- C Oligopoly
- D Monopolistic Competition

### Question Number 13

The matrix below shows pricing options facing two firms which dominate a market between them. Firm A has a reputation for high quality. Firm B has a reputation for discounting. Which set of pricing decisions represents the Nash equilibrium in this market?

	Prices	Firm B	
		High	Low
Firm A	Very high	200, 25	100, 125
	High	200, 60	150, 100
	Low	250, 20	80, 110

- |             |        |                       |
|-------------|--------|-----------------------|
| Firm A      | Firm B |                       |
| A Very high | Low    | <input type="radio"/> |
| B High      | High   | <input type="radio"/> |
| C High      | Low    | <input type="radio"/> |
| D Low       | High   | <input type="radio"/> |

### Question Number 14

The kinked demand curve of price theory assumes that

- A Demand is price elastic for a price increase but inelastic for a decrease  
 B Demand is price inelastic for a price increase but elastic for a decrease  
 C Demand is price elastic for both price increases and decreases  
 D Demand is unitary for both price increases and decreases

### Question Number 15

Which of the following is least likely to be a barrier to entry into a market

- A High Research and Development costs  
 B High price elasticity of demand  
 C Significant internal economies of scale  
 D Risk-averse financial markets

**A Level Economics Practice MCQs – Oligopoly  
Solutions**

1. C
2. C
3. B
4. C
5. D
6. C
7. B
8. B
9. A
10. C
11. C
12. C
13. C
14. A
15. B

Sample  
Resource