



ECONOMICS WEBINAR

Teaching Contestable Markets

A Level Economics

Hosted by Jon Clark and Ruth Tarrant

Coming soon...Student Workshops

About this event

The Strong Foundations workshop format is designed to:

- Reinforce core A Level Economics teaching content that has been taught so far, including key foundation topics from Year 1
- Enable students to catch-up with, and re-cap key topics from Year 1 (AS) that will may be examined in the terminal exams but which will not be taught again
- Build student understanding of, and confidence in the core assessment skills that they need to master in order to perform strongly in the three terminal papers.
- Help students prepare effectively, and provide a focus for mock exams in early 2017

The A Level Economics Strong Foundations Workshop combines:

- Four hours of intensive large-group tuition by our experienced A Level Economics presenter team
- An enlarged workshop booklet containing all the session content, extension activities, guidance on exam-board specific exam technique and other essential revision materials

Strong Foundations – for Year 13s in November and December 2016 , at Vue Cinemas in Portsmouth, London, Cambridge, Birmingham, Bristol, Manchester, Leeds, and Gateshead – **limited tickets left!**

Also **Flying Start** for Year 12s and **Grade Booster** for Year 13s, March to May



Session Aims

Contestability

- Understanding the concept of a contestable market and some of its characteristics
- Understand what impacts on levels of contestability

Resources

- 4 resources for introducing and testing these concepts

Contestable Markets

A contestable market

is a market structure
where there is
freedom of entry and
exit.

Contestable market theory is
not....

the level of
competition in a
market

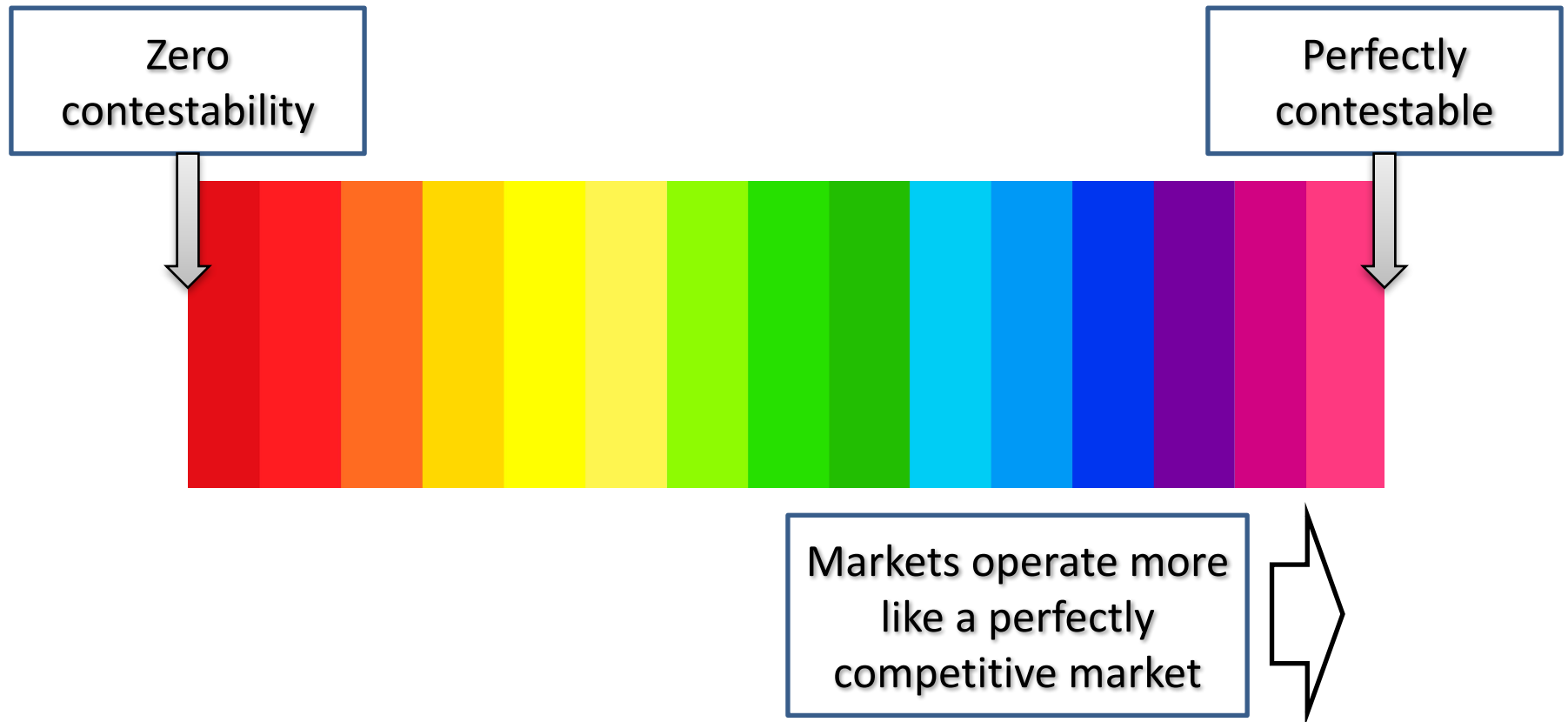
Contestable Markets

A contestable market

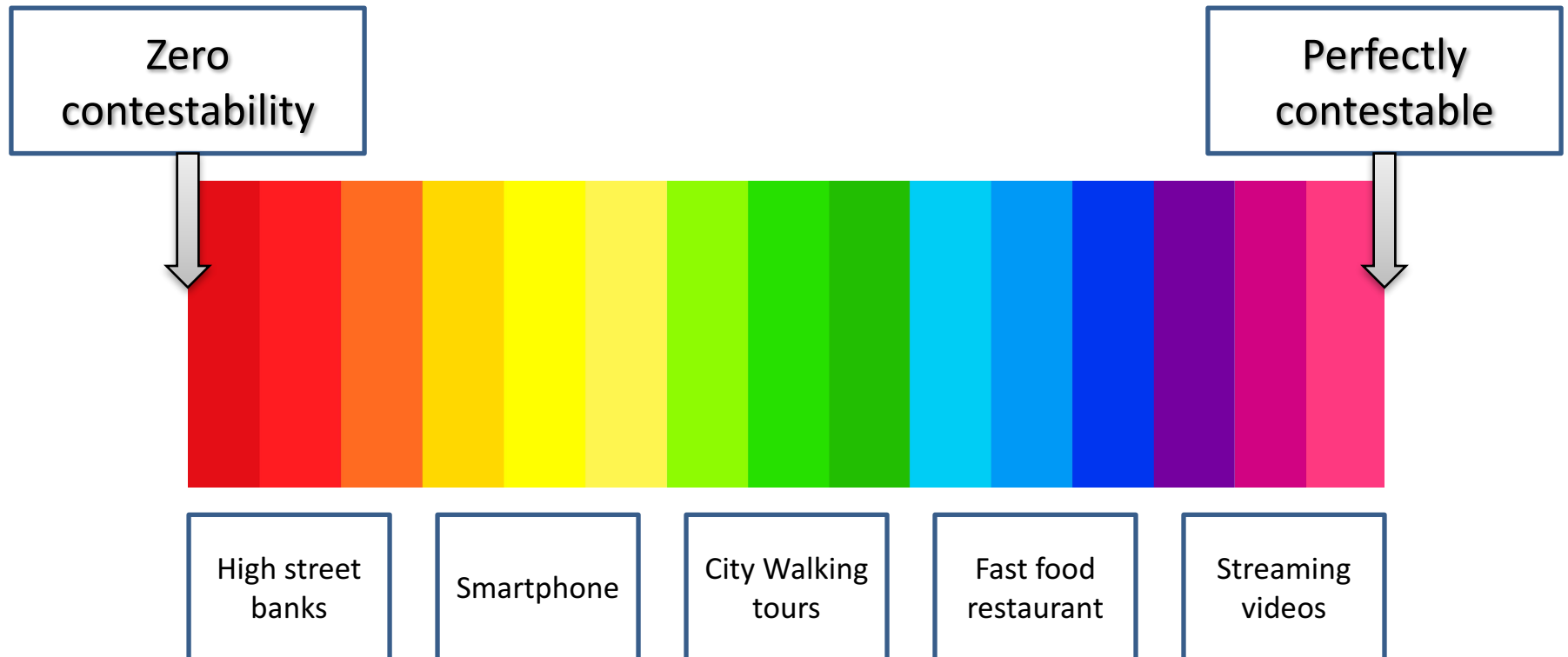
is a market structure where there is freedom of entry and exit.

The behaviour of firms is determined by the **potential** for competition.

Contestable Markets



Contestable Markets







Sunk Costs

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MARKETS

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Sunk Costs

Sunk costs can not be recovered if a business decides to leave an industry. Sunk costs include asset write-offs, closure costs (such as redundancy pay, penalty costs on leasing), and loss of business reputation.

			
Budget hotel chain	Courier Service	Dog grooming service	Breakfast cereal manufacturer

Task 1: What type of sunk costs could exist for the following businesses if they were to leave the industry?

--	--	--	--

Task 2: Think of a method that a business could use to reduce those sunk costs

--	--	--	--

Task 3: Which of the markets above is the most contestable? Justify your answer

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Barriers to exit - Sunk Costs

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What type of sunk costs could exist for the following businesses if they were to leave the industry?

A budget
hotel chain

Loss of
reputation if
firm has other
business
concerns

Courier Service

Redundancy
costs

Dog grooming
service

Bad debts owed
by owner

Breakfast cereal
manufacturer

Asset write-offs
for machinery

Barriers to exit - Sunk Costs

A budget hotel chain	Courier Service	Dog grooming service	Breakfast cereal manufacturer
Loss of reputation if firm has other business concerns	Redundancy costs	Bad debts owed by owner	Asset write-offs for machinery
Sell chain to established firm	Employ people on fixed term contracts	Consider ownership status	Lease machinery
Think of a method that a business could use to reduce those sunk costs			





Sunk Costs

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MARKETS

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Hit and Run Entry

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The Home Assistant Market

In late 2016, both Amazon and Google introduced the latest versions of their Home Assistants – The Amazon Echo and Google Home.

Both are voice activated speakers that use the home wifi to answer questions posed. You can ask for all sorts of information including weather forecasts, traffic details and calendar events. You can also control any aspect of the 'smart home' (e.g. your lights!) as well as play music.

The key to a good Home Assistant is the development of sophisticated search engines. This is considered a market with great potential to make supernormal profits.

Task 1

What activities would you like your Home Assistant to undertake?
Remember, it can only give answers in audio format!

Task 2

Which other firms could potentially enter the market for creating Home Assistants?



Task 3

What barriers to entry and exit for the Home Assistant market could exist?

Hit and Run Entry

When a business enters an industry to take advantage of temporarily supernormal profits

A New Market – the Home Assistant



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Impact of contestability on a market

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How contestability impacts on the performance of an industry

Uber Technologies Inc are most famous for their taxi service where consumers use their smartphones to submit requests and its software finds the nearest driver. The company has now moved into other markets including food delivery, package deliveries, and car pooling, as well as a water-taxi service in Turkey.

The success of the company has given rise to the term 'uberisation' – where firms are using the power of peer-to-peer transactions to reduce costs and improve services for consumers.

Task 1: What other possible industries could see a rise in 'peer-to-peer' transactions, where technology allows consumers and suppliers to interact more quickly or without a third party organization's involvement?

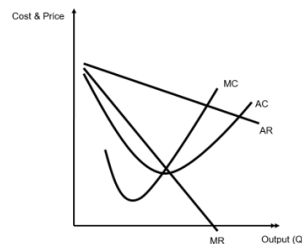
Task 2: What is the likely impact on the grocery market if Uber expands its food delivery service? How would established grocery stores respond?

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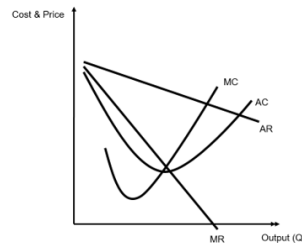
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Task 3: Markets facing the possible intervention of new firms are more likely to look for alternative business objectives than profit maximization as they know that competition could potentially exist in the near future. For example they may maximize revenue rather than profit maximize. On the diagram below, draw in profit maximisation and revenue maximisation points indicating price and output for each objective.



Task 4: Firms in contestable markets may also seek to keep prices relatively low so that they can compete and aim to make normal profits. On the diagram below draw in the point where normal profits would be achieved indicating price and output.

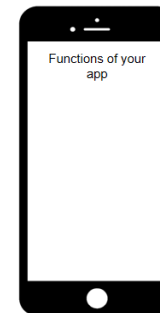
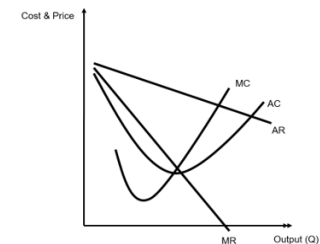


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Task 5: Firms in contestable markets may also seek to match customer expectations and invest in improving the quality of their products and they may aim to be allocatively efficient. On the diagram below draw in the point where allocative efficiency would be achieved indicating price and output.



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Task 6: Uberisation! Can you think of another use of smartphones that uses the peer-to-peer method of assisting customers and suppliers to communicate?

In the space below outline the functions of your smartphone app. Suggest possible disadvantages of the app and explain reasons why such a service may not currently exist.

Disadvantages of your app:

Impact of contestability on a market

Uberisation



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Impact of contestability on a market

Uberisation



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Impact of contestability on a market

Uberisation



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Impact of contestability on a market

Uberisation



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Impact of contestability on a market

CONTESTABLE MARKETS

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How contestability impacts on the performance of an industry

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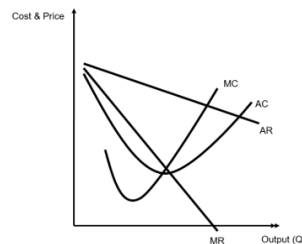
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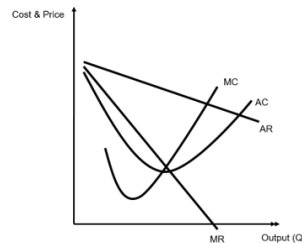
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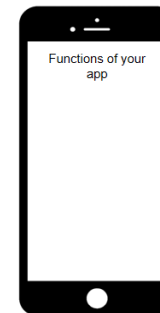
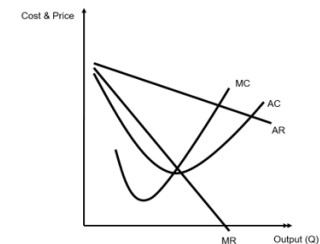


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Disadvantages of your app:

Levels of contestability

Contestability within a market is determined by factors other than just sunk costs

Consumer
loyalty

Regulations

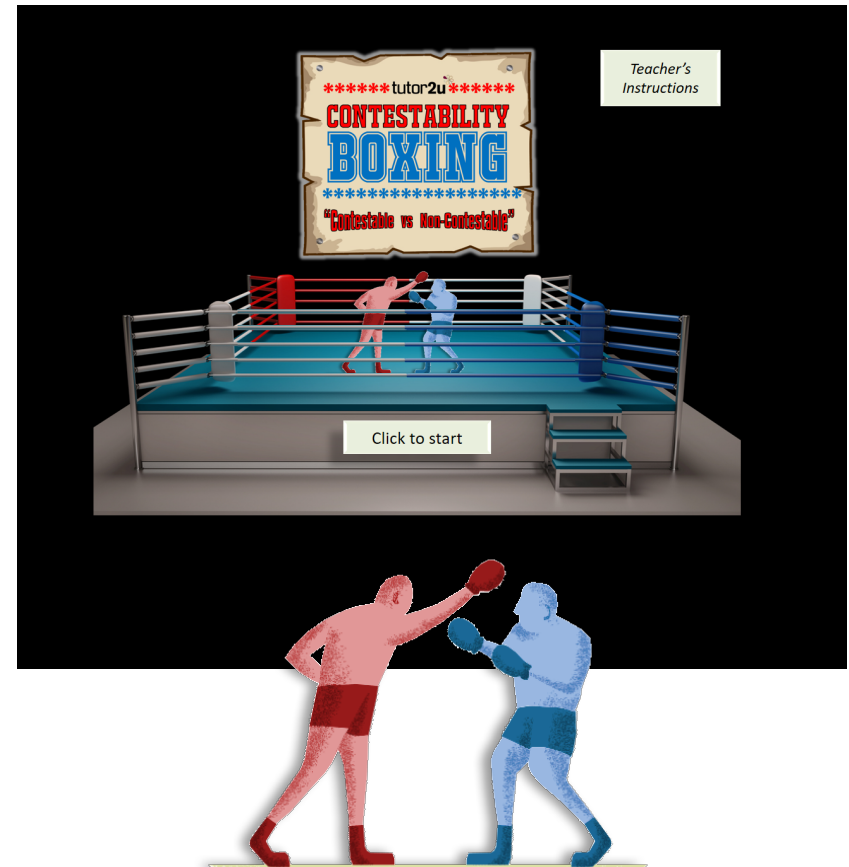
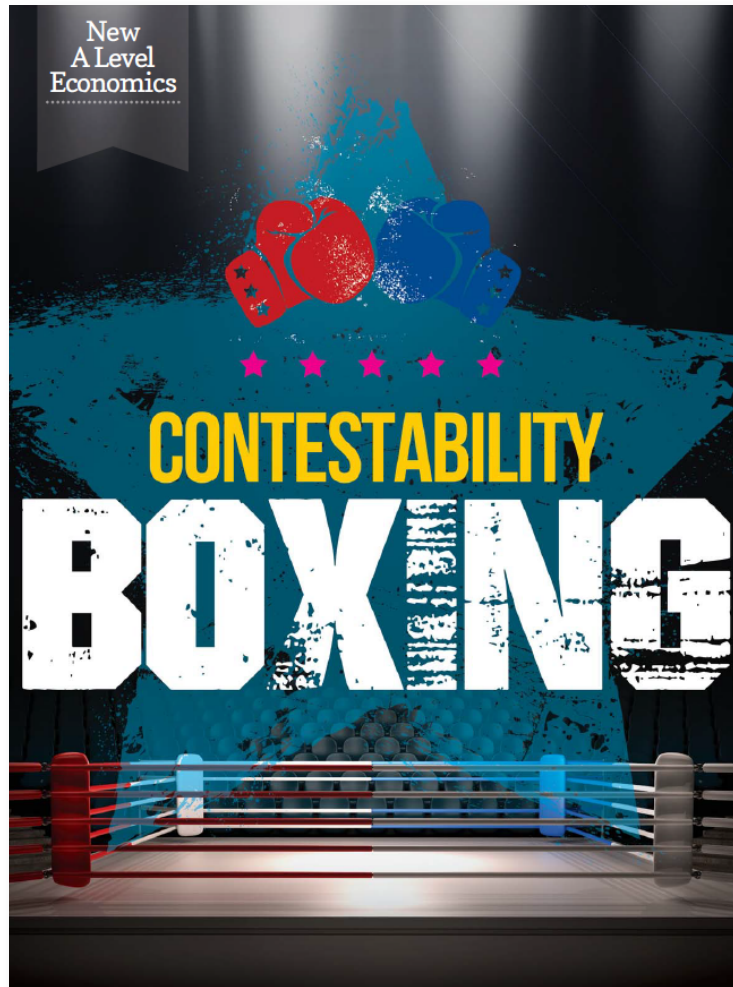
Access to
technology
for
production

Information
for supplier

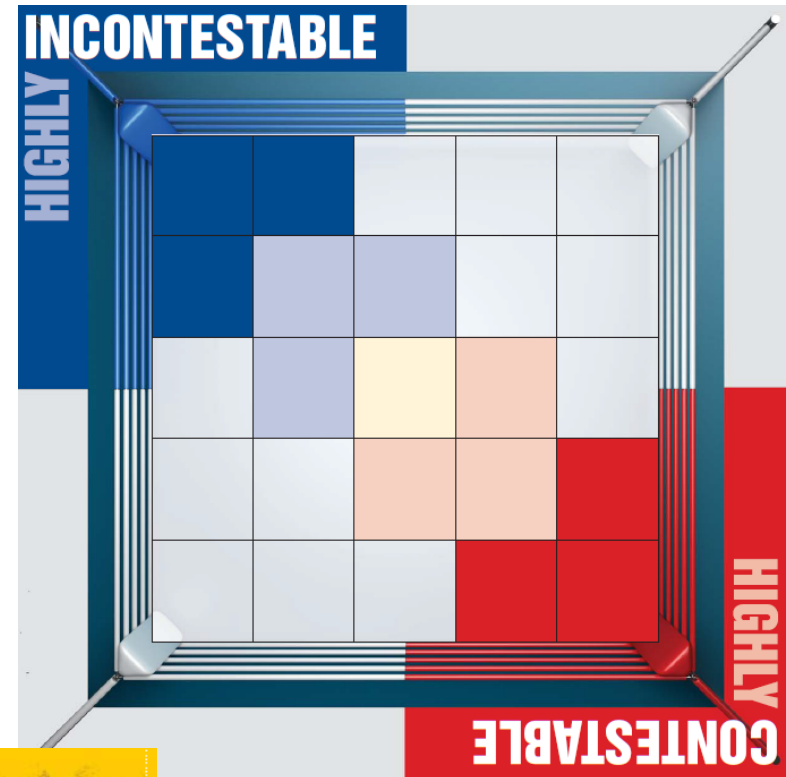
Access to raw
materials

Access to
skilled labour

Contestability Boxing



Contestability Boxing



*****	*****	*****	*****	*****	*****	*****
Absence of sunk costs	Low consumer loyalty	Little regulations	Easy access to technology for production	Perfect information for supplier	Easy access to raw materials	Access to skilled labour

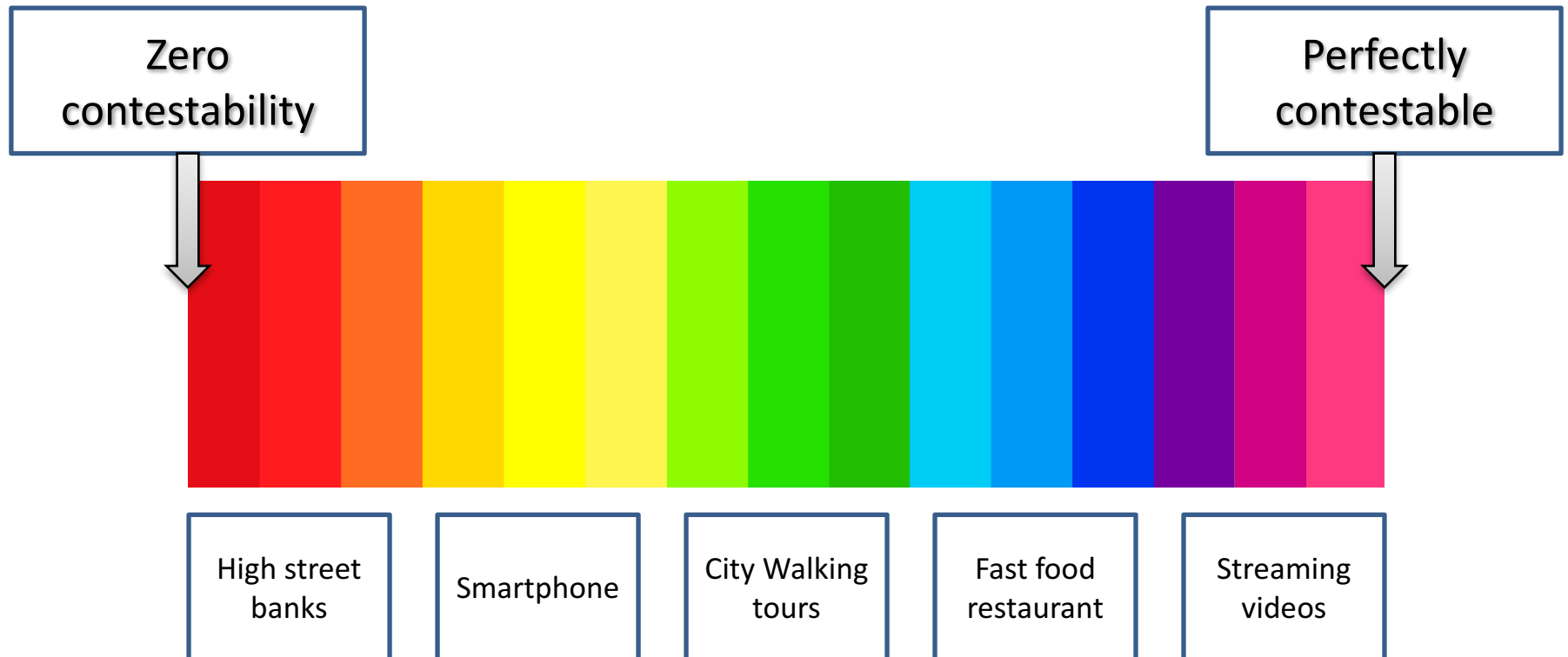
Contestability Boxing

N.	Characteristics
1	Absence of sunk costs
2	Low consumer loyalty
3	Little regulation
4	Easy access to technology for production
5	Perfect information for supplier
6	Easy access to raw materials
7	Access to skilled labour



	Market	1	2	3	4	5	6	7	Outcome
1	High Street Banking	9	11	12	8	10	5	6	Little contestability
2	Smartphone	12	7	8	10	9	13	7	Little contestability
3	Walking tours of historic city	1	2	5	3	6	4	8	Highly contestable
4	Fast food restaurant	8	6	11	7	9	4	2	Some contestability
5	Budget hotels	4	5	8	6	7	9	3	Some contestability
6	Streaming video service	3	4	5	8	7	6	9	Some contestability

Contestable Markets



Today's Resources

- Today's resources will also appear on the tutor2u economics Facebook pages and the tutor2u blog
 - <https://www.facebook.com/groups/edexcel-economic-teachers/>
 - <https://www.facebook.com/groups/ocr-economic-teachers/>
 - <https://www.facebook.com/groups/aqa-economic-teachers/>
- Sign up to our Daily Digest to receive an email every morning:
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- Please follow us on Twitter @tutor2uEcon, @tutor2uGeoff, @tutor2u_jon and spread the word...

Any Questions?



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