

## Marking short answer questions

**Q: Retailers sometimes promise to match their competitors' prices: if you can find the same item on sale cheaper elsewhere, they will refund the difference. Large supermarkets go further, checking the prices of competitors themselves, and giving you an automatic refund if the items in your shopping basket would have cost less (in total) elsewhere. Do you think that this strategy is a sign of a competitive market?**

Suggested Answer guide: Discuss how in perfect competition because there are lots of firms, price will be pushed down to the lowest possible amount, which is the mc. While the price matching phenomenon does have something to do with competition (e.g. among the big supermarkets) it is not clear that these markets are in fact competitive. Note that there are only a few big supermarkets, and small corner shops which might be thought of as price-takers are getting rarer and rarer. So why the price match? This gives the impression of a good deal – as more and more people are shopping on the web, price comparisons are getting easier to do, so the supermarket does this for you. However, it might actually be cheaper for you to buy from the local butcher, baker and candlestick maker; as comparing prices from these sources is harder, you are unlikely to be able to figure this out. Finally, a lot of goods included in the price comparison are in fact differentiated products (different brands of cereals e.g.) so a direct comparison is again difficult. You can also go down the conspiracy route and say that the big supermarkets might be co-operating and setting up their price structures such that these price comparisons make each of them look good at some point. Finally, the linked article explains how people tend to end up buying items that are on offer (whether they actually need them or not), so when the on-offer basket is compared to another store (which doesn't have exactly those offers), the former will always look cheaper.

### Student Submission 1:

Arguably it is a sign of a competitive market as it is an acknowledgment on the firm's part that they will sell more goods if they price at the market price and therefore have a fairly elastic demand curve. However, on the other hand it can be argued that if the market were truly perfectly competitive, they would not be able to price above the market price in the first place as there would be no demand, and some consumers may find it too much of a hassle to go and check and then prove that it is priced lower elsewhere, and instead would just go directly to the cheaper retailer. Therefore we can assume that this market is either imperfectly competitive (contestable) or a competitive oligopoly (which is most likely the case if the retailers in question are supermarkets).

### Student Submission 2:

A competitive market is a market in which there are a large number of buyers and sellers. There are different types of market structures ranging from perfect competition to a monopoly, where one firm dominates the market. In the case of supermarkets, they tend to fit the characteristics of an oligopolistic market structure. This means the market is dominated by a few firms only.

Firms compete with each other in numerous ways, including price of the products and the quality of the products. If firms decide to lower their price based on what their competitors are offering, it shows signs of a competitive market. This is because they are taking into consideration when their competitors are doing when making their own decisions about prices.

If firms want to gain more customers without losing out on any profit, from lowering the price of their goods, they should try and be more competitive in the quality of their goods rather than their prices.

### Student Submission 3:

I definitely think that this is the sign of the competitive market. Through my short essay I will show with economic theories why this is true.

In the competitive markets we have the law of one price holds. And we can see this through our example as well. If the customer finds the same product on a lower price in one of the shops of the competitor company he can buy the product at the same (lower) price in the first shop. Like this he doesn't have to go to another place to be better off, thus both of them can be happy with this deal, the customer could buy the product on a better price and the shop made profit, even if it is not as much, it is still profit.

Furthermore we have identical products so this makes the shops to set their own prices. But obviously every shop would like to make as much profit as they can; therefore they set the prices of some products a bit higher than the competitors, because like this they can achieve higher profits. In addition they also can expect that the customers will not recognise the £1-2 extra on some products if their baskets are full of other discounted goods. This is a good way how to be a bit above the equilibrium price and like that gain more income.

In addition the strategy of the large supermarkets described also in the BBC news report is really comprehensible. If they choose prices a bit below the competitors they can attract more customers and like that achieve higher profits, while the loss what they make with the lower prices is not that much.

All in all, through these examples we can clearly see the signs of competitive markets, which are good for the customers and also for the shops, which have to improve their services and update their prices day-to-day.