

Econ100 Assessment 3

Class Essay

Your class essay contributes 20% of the overall mark for Econ100.

Questions to address

You have been employed as a consultant by the Ministry of Economic Development in the country of Monoland. They have requested that you provide them with a report consisting of two parts:

Part A (8 marks)

Provide a summary of the advantages and disadvantages of competitive markets over monopoly markets. In particular you have been asked to identify:

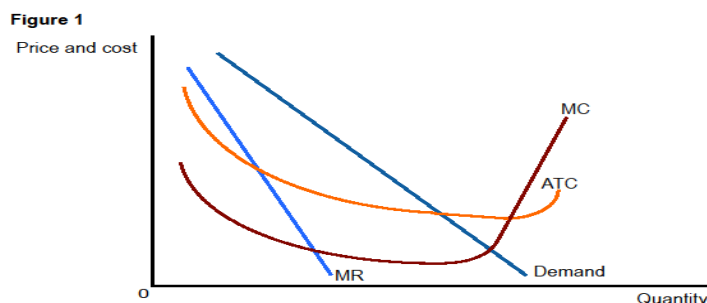
1. The economic efficiency and economic welfare outcomes under competitive markets compared to that under monopoly markets. (5 marks)
2. Potential advantages from retaining certain markets as monopolies. (3 marks)

Part B (12 marks)

The local Monoland Electricity Company has been identified as a natural monopoly and is currently privately owned. The Monoland government wishes to evaluate and compare the economic and efficiency outcomes (and impact on the government budget) from the adoption of each of three possible policies towards this natural monopoly:

- a. Leave it as a private monopoly (profit maximisation is the firm's objective)
- b. Leave it as a private monopoly but regulate its operation (it must break even)
- c. Take it into state ownership (the firm must produce the socially efficient level of output)

Figure 1 provides information on the company's average and marginal cost curves, marginal revenue curve and market demand curve.



Using the information contained in Figure 1, highlight and compare in your report:

1. The price and quantity outcomes under each of the three policies. (4 marks)

2. Efficiency outcomes under each of these policies. (4 marks)
3. The impact on the government budget from each of these policies (4 marks)

[END]