

CSQ Notes

1. Trend Description: (1/2m)

Concise and precise summary of the trend + 1 refinement point - usually an exception or sometimes a significant movement.

- a. Generally prices rose over the period (1m)
However, prices fell between January and October 2014 (1m)

2. Market/Price Adjustment Process: (4m)

Concise and precise summary of the trend + 1 refinement point - usually an exception or sometimes a significant movement.

Trick: When determining how to draw surplus/shortage, extend P from S_0/D_0 to S_1/D_1 .

- a. Overall trend: Prices increased due to both a rise in demand and fall in supply

Demand factor: In Extract 2, there seems to be an increase in number of consumer markets such as from Asia, Brazil and Russia (**extract quote**)

⇒ This could have been due to rising incomes or a preference for salmon due to its nutritious value (**factor**)

⇒ As shown in Figure 1, the demand curve shifts from DD_0 to DD_1 , causing a shortage at the prevailing price P_0 .

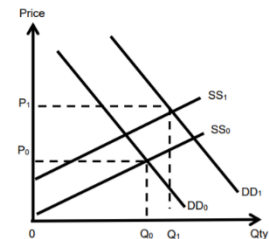


Figure 1: Market for Norwegian farmed salmon

Supply factor: From Extract 2: parasitic lice (disease) which

led to less salmon being farmed, or increase in feed cost and raw materials cost increase cost of production. At the prevailing price, firms are less willing to produce (**factor**)

⇒ As shown in Figure 1, this leads to a shift of the supply curve from SS_0 to SS_1 .

Final effect: Both the rise in demand and fall in supply lead to a shortage, which causes consumers to bid up prices. The final equilibrium price rises to P_1 .

Anomaly: Prices fell in 2014 due to the fall in demand arising from trade sanctions imposed against Russia.

3. Elasticity Concepts:

- a. Usually ask about PES/PED (read the passage and look for factors) – price sensitivity means price elasticity
 - i. Look at how **stable** the provision of the good is (e.g. perishable goods tend to have **in-elastic** supply – farmers cannot react quickly to changes in price and supply more)
 - ii. Look at **substitutability** of the good and also how much of a **necessity it is**
 - iii. Look at what **proportion of income** it takes up

4. Type of Costs:

- a. Fixed Cost
 - i. Definition: Fixed cost does not vary with the level of output
 - ii. Example and Explanation: Increase in rental costs which is a fixed cost reduces profit margin of Walmart.
- b. Variable Cost
 - i. Definition: Variable cost bears a direct relationship with the level of output.
 - ii. Example and Explanation: An example is fish feed cost. More feed is needed if the number of fish reared increases.

5. Types Of Firms:

- a. They never ask about perfect competition – a market that is completely competitive is impossible to find (firms always have some degree of price setting ability)

- i. **MPC** – fragmented market, large no. of small firms
- ii. **Oligopoly** – examine 3/4 firm MCR: some large firms + many other small firms, look for mention of BTEs + look for evidence of collusion (collusion is relatively **exclusive** to oligopolies)
 - A. If answer is **oligopoly**, always justify w/ MCR.
- iii. **Monopoly** – one huge firm: usually controls supply of raw products and manufactures goods by itself

6. Strategies to Increase TR:

- a. Price Strategies
 - i. **MPC**: DD likely to be highly price elastic, reduce prices to keep prices competitive to increase TR $\Rightarrow$ fall in price = more than proportionate increase in qty dd $\Rightarrow$ increase in TR
- b. Non-Price Strategies
 - i. **MPC**: Individual retailers must take measures to reduce the degree of substitutability (& reduce PED) so as to be less affected by the pricing policies of rival retailers, especially the small and independent retailers.
 - A. Retailers could attempt to product differentiate in terms of product mix and improving customer service quality $\Rightarrow$ reduce PED & increase DD

7. Economies of Scale

Internal economies of scale, which may lead to a fall in LRAC, shown as a movement along the LRAC curve.

- a. Technical EOS (Arise from production process)
 - i. Super farms can use large machines like tractors and combine harvesters. The factor indivisibility allows total cost to be spread over a larger output, and unit cost or average cost keeps falling as output rises, leading to substantial economies of scale.
 - ii. These machines also increase efficiency and productivity. With a rise in output per man hour, the unit cost falls.
- b. Financial EOS
 - i. Super farms can 'access international capital markets'. This allows them access to more avenues of fund raising which may be more cost effective compared to only borrowing from banks where they have to make fixed interest payments.
 - ii. Furthermore, super farms have better credit standing with banks. Moreover, banks can seize the collateral of such big firms should they default on loans. Therefore, banks are willing to offer lower interest rates. The lower rates effectively reduce the average cost of firms
- c. R&D EOS
 - i. Total cost of carrying out R&D spread over a larger output, thus lower LRAC.