2. ‘Barriers to entry are the only considerations necessary in a firm’s pricing and output decision making process.’ Discuss. [25]

Synopsis: Barriers to entry and firms’ objectives are dual considerations necessary when looking into how firms decide to determine its price or output points. Discussion thus should look into how price and output can be determined between perfect and imperfect markets that are controlled by barriers to entry as well as differing maxims of various objectives.

1. Definition : Barriers to entry are obstacles that deter new firms from entering a market to compete with the existing firms. They provide firms with market power such that decisions can be made by existing firms without risking their market share.
2. Types of BTE: natural & artificial – explain and illustrate
3. Explain how BTE influences a firm’s pricing and output decisions….
    a. Markets with no barriers - Show how in PC market where there are no barriers firm’s pricing is dependent on the industry – market demand equating to market supply to determine firms’ price ie firm is a price taker…firm’s costs curves determine its output levels…profits made could be super, sub or normal profits in the short run. As there are no BTE the PC firm will enjoy only normal profits in the long run as perfect knowledge allows other entrants into the industry thus eroding its profits. In this case BTE may be the only consideration in pricing and output decisions.
    b. Markets with barriers - In the case where some barriers exist due to product differentiation, pricing decisions do not depend on BTE alone but on the objectives of the firm. Differing objectives call for different decision maxims ie MC=MR for profit maximiser, AC=AR for output maximiser, MR=0 for revenue maximiser, P=MC for welfare maximiser, Government intervention, others….
    c. Pricing and output decisions and outcomes differ given different objectives and different levels of BTE. Objectives of Profit max (MC=MR), Welfare Max(P=MC), Revenue Max (MR=0), Output Max (AC=AR), AC Pricing (AC=AR), MC Pricing (MC=AR)…. Illustrate and explain with diagrams.
    d. Final price tend to be higher the larger the BTE and output tends to be lower the larger the BTE. Illustrate and explain with diagrams showing the differences for the different types of market structures of monopolistic competitions, oligopoly and monopoly.
4. Reinforce the fact that except for perfect competition, BTE is not the only consideration necessary in a firm’s pricing and output decision making process.
5. Conclusion.

L1	Answers show some knowledge of the concepts relevant with no examples and contextualisation. Explanations are brief and not supported with examples and diagrams	1 – 9
L2	Answers show adequate knowledge, a balanced outlook with no contextualisation and examples shown. Some rigour in economic analysis and development but is not clear and adequately supported with examples.	10 – 15
L3	Excellent knowledge, rigour, use of diagrams and attempts at contextualisation with a variety of relevant examples excellently and appropriately applied to the different market structural types.	16 - 21
E1	Unexplained judgements were stated	1 – 2
E2	Judgements were derived and based on analysis made.	3 - 4