

[The concept covered in this exemplar is market structures. The student also explained marginal utility and demand in detail and applied the concept to coke, lollipops and chips, and used processed data and demand curve models to support the explanation.]

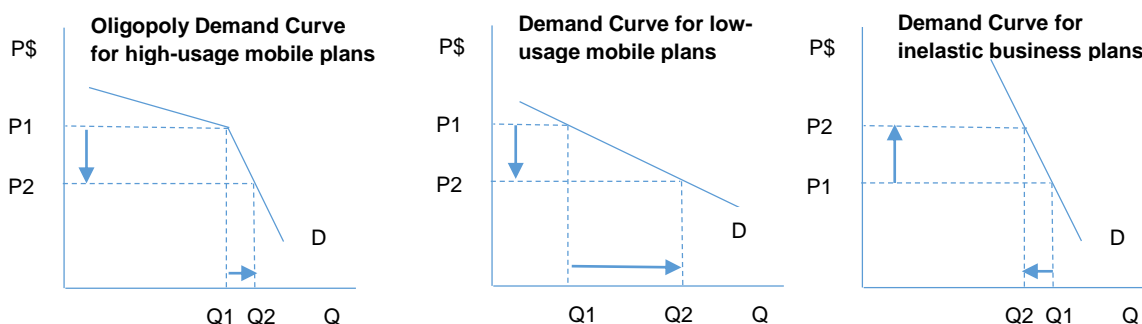
Duopoly, oligopoly, and monopolistic competition were defined and the different features of these market structures explained in an introduction by the student. ①

In 2009, 2degrees entered the market and the New Zealand (NZ) telecommunications market became an oligopoly market structure. The market barriers were strong due to the dominance of Vodafone and Telecom (previously a duopoly market structure), and the geographical challenge of NZ with a relatively small population means it is even more difficult to enter and successfully compete.

An oligopoly market tries to avoid price competition because of the threat of price wars; firms prefer non-price competition whereby they attempt to gain more market share through product variation (i.e. actual changes/differences in the product or service) and product differentiation e.g. advertising, branding, location, etc. ③

An oligopoly market situation can be represented by the kinked demand curve. At the price shown at the 'kink' of the oligopoly demand curve below is the most idealistic market price for the good or service. Any price above (P1) shows a relatively flat curve for a product that is elastic at higher prices, as other firms' may not follow a price increase and therefore consumers would buy from the competition resulting in a fall in revenue. ②

Any price below (P1) show a relatively steep inelastic curve, so if a firm lowers its price the other firms will too, and they will receive a less than proportionate increase in quantity demanded and a fall in total revenue.



The arrival of 2degrees did send the telecommunications market into a price war. Telecommunications Commissioner, **Dr Stephen Gale said**, "It's great to see the benefits of competition in the market place...the arrival of 2 Degrees has delivered great results for users...Prices have steadily been dropping and are below OECD averages." **Users of low-usage prepaid schemes are benefiting the most out of the price war due to the elasticity of low-usage services;** there are substitute products for these consumers like landlines or the internet. **As seen in the model the demand curve is relatively flat and the price decrease has seen a proportionately larger increase in quantity demanded by consumers taking advantage of the price war** between the three firms. ②

However, **those who make the most calls have not benefited from the competition.** A price drop for high-usage mobile plans is not going to result in very many more consumers taking

these type of plans if they do not need this type of plan and so the fall from P1 to P2 results in a less than proportionate increase in QD from Q1 to Q2.

Vodafone, Telecom and 2degrees could even push up prices (P1-P2) for inelastic business plans knowing total revenue will still increase as businesses' phones are a necessity, and switching to a cheaper option may not be possible or be a major inconvenience and costly if they lost customers to their competition, so QD would not decrease much at all (Q1-Q2).

The reason why 2degrees was able to break the strong barriers into this market and successfully compete was due to their new innovative way of serving their customers e.g. carry over plans with the ability to share data between accounts at low prices, using product differentiation and variation. Vodafone used product variation by launching the new HD voice addition followed by selling Microsoft Office 365 and an iPad Air as a method of non-price competition.

It is now easier with the creation of SIM cards for customers to switch networks and keep the same mobile number, so therefore Vodafone and Telecom have had to work extra hard to keep their market share and avoid price wars.

Website sources:

<http://www.scoop.co.nz/stories/HL1311/S00041/editorial-nz-mobile-market-flowers-thanks-to-competition.htm>

<http://www.nbr.co.nz/article/new-zealanders-pay-more-mobile-data-commerce-commission-study-ck-152928>

http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10713109