

Chapter 9 Imperfect Competition

Question 9.4

We leave the electricity market but stay in Sweden. The table below shows the main providers of bottled still water in Sweden.

Table: Main providers of bottled still water in Sweden (May 2001)

	Price/liter (Swedish crown)	Market share
Imsdal (Norway)	12.02	44%
Blåvitt (Sweden)	6.26	19%
Evian (France)	13.15	15%
Vittel (France)	10.78	11%

Source: Friberg and Ganslandt (2005)

- 9.4A Do you think bottled still water is a homogeneous good? Explain whether the Swedish market for bottled still water is characterised by perfect or imperfect competition.
- 9.4B Friberg and Ganslandt¹ report that shipping 1½ liters of water for 1000 kilometers costs 1.02 Swedish crown. Do you think it is efficient to ship bottled still water all the way from France?

Question 9.5

Historically, the market for electricity is characterized by oligopolistic firms. Since the 1990's the European Commission have tried to make the national electricity markets of its members more competitive. The [datafile of question 9.5](#) contains data on the electricity markets of the EU member states. We are going to analyze how successful the efforts of the European Commission have been.

¹ R. Friberg and M. Ganslandt, "An empirical assessment of the welfare effects of reciprocal dumping", mimeo, 2005.

- 9.5A Describe which member states have reformed most fully in order to allow their citizens to choose energy suppliers themselves. Describe also in which member states most suppliers are active and which member states are most actively trading electricity.
- 9.5B Is regulatory reform correlated with the number of suppliers on the electricity market and electricity trade?
- 9.6C Are the number of suppliers and trade correlated to electricity prices?
- 9.6D What do you conclude from the analysis above? Should the European Commission push for further reforms in the European electricity market?

Question 9.6

The [simulation file of question 9.6](#) allows you to play with the reciprocal dumping model. There are two firms, A and B. In the reciprocal dumping model of chapter 9 it is assumed that both firms face the same marginal costs. The simulation is slightly more flexible in this respect as it allows for a difference in marginal costs. Firm A produces for the home market and firm B is situated abroad. Firm A therefore does not face transport costs while firm B does. Note that the transport costs are of the iceberg type.

- 9.6A Why does firm B not offer its products on the home market even though its marginal production costs are lower?
- 9.6B What options does firm B have to introduce its product on the home market of A?
- 9.6C One of the options of firm B is to lobby for a road so that transport costs will decrease. What effect does a decrease in transport costs have on the quantities supplied and the price?
- 9.6D Who gains and who loses from a decrease in transport costs?
- 9.6E How does welfare of country A, of country B and total welfare change? Do you think building a road is attractive for the government of country A?