2. Bubble tea lovers in Singapore have the highest spending power of US$342 annually, with the bubble tea industry earning a profit margin of around 75%. The industry has enough room for larger and smaller players to co-exist and flourish. The emergence of new players who are good at branding, supply chain and cost management could pose an increasing challenge to existing local players.

a) Explain how the market structure in which bubble tea industry operate is likely to affect the firm's pricing and output decisions. [10]

b) Discuss the potential benefits and problems that are likely to be experienced by the consumers and producers with the entrance of new competitors. [15]

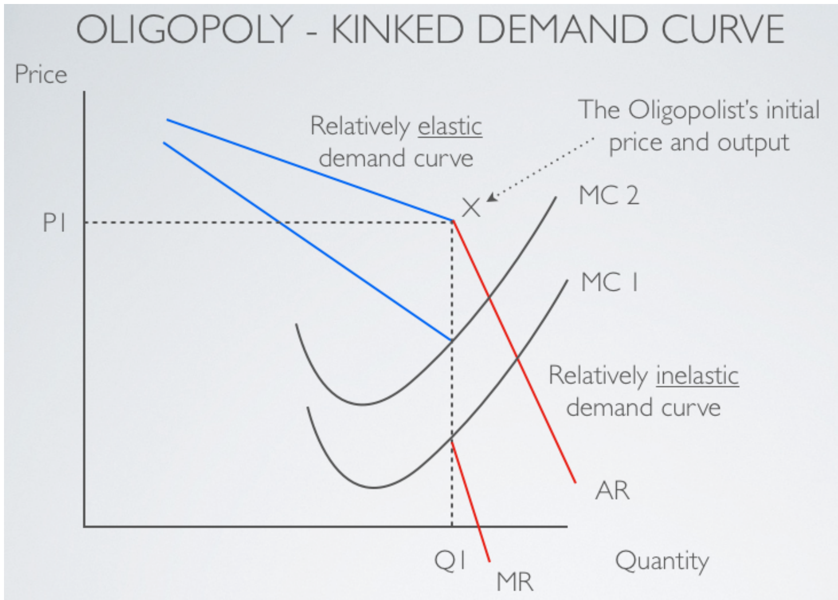
Question Analysis:

a) Explain how the market structure in which bubble tea industry operate is likely to affect the firm's pricing and output decisions. [10]

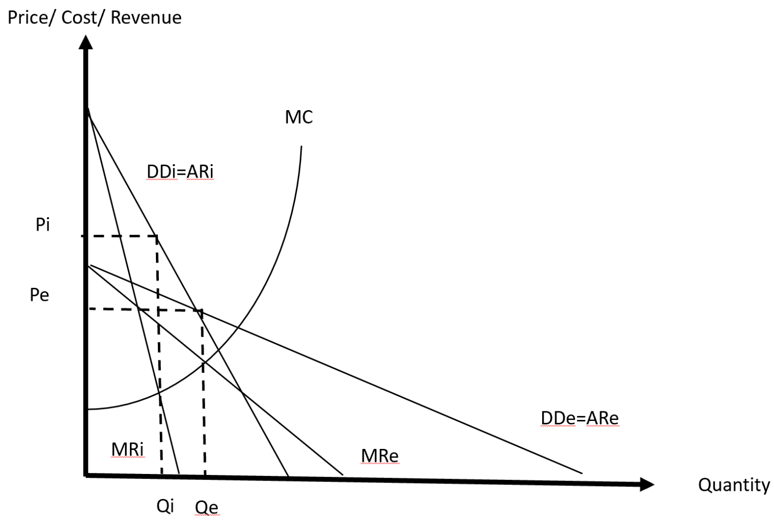
Command	Explain how (Process)
Content	Structure (Characteristics) affecting the price and output of the firms
Context	Bubble Tea industry (Oligopoly)
Trigger	Structure of bubble Tea industry
End	Price and output decision

Paragraph Development:

Point	The Bubble Tea industry operates in an Oligopoly market structure and therefore the **mutual interdependence characteristics in the firm results in price rigidity** among the firms, affecting their pricing and output decisions.
Example	Bubble Tea firms tend to not engage in pricing competition where their main competitive strategies are non- price competition in their consistent attempt to differentiate and diversify their products.
Economic Analysis	Mutual interdependence between the firms in Oligopoly would have resulted in the firms experiencing a kinked demand curve where: - Increase in price above P1 would be along a |PED| >1 demand curve - Leads to a more than proportionate decrease in quantity demanded - Fall in TR

	- Decrease in price below P1 would be along a price inelastic demand curve where 0< |PED| <1 - Leads to a less than proportionate increase in quantity demanded - Fall in TR  In addition, the presence of the disjoint MR also meant that: - Any changes in the MC between MC1 and MC2 - There would be no changes in the P and Q where price and output would remain at P1 and Q1.
Link to ATQ	Given the mutual interdependence nature of the Bubble Tea firms, there is often price rigidity and firms are generally unwilling to change prices.

Point	The Bubble Tea industry operates in an Oligopoly market structure and the **dominating firms** in the industry tend to have differentiated products/ strong brand loyalty where **0<|PED|<1** compared to the small firms operating in the Monopolistic Competitive Market Structure.
Example	Large dominating firms in the Bubble Tea industry like Liho, Koi and Gong Cha have their own unique drinks and often the consumer loyalty results in the presence of weak substitutes allowing them to have a price inelastic demand for their products.
Economic Analysis	Ability to product differentiate: - Weak substitutes relative to if the firms where operating in an MC market structure where products are mostly homogenous - Price inelastic demand (Oli) - Poli is higher than Pmc

	- Tendency to charge at a higher price level as an Oligopoly than that of a firm in MC 
Link to ATQ	The level of market dominance will have an impact on the price set by the firms, when the demand for the good is more price inelastic, the price will be higher and the output will be lower.

Point	The Bubble Tea industry operates in an Oligopoly market structure where they tend to engage **in non- price competition** as a strategy to compete against others.
Example	The firms in the bubble tea industry frequently differentiates their product, varying in the quality and variety of their product. E.g. Liho is known for their Cheese infused milk topping, Koi diversifies to different fruity tea dependent on season, Chi Cha San Sen who is known for the quality tea used, especially with every cup of tea made from controlled brewing technique, Playmade with their highly diverse toppings where their bubbles come in different flavours.
Economic Analysis	The output of the bubble tea industry is homogenous but highly diversified. - Competitive environment has created the incentive to R&D - Supernormal profits has created the ability to R&D - Product differentiation is a common scene in the bubble tea industry. - Highly diverse and quality output in the bubble tea industry.

Link to ATQ	Output in the bubble tea industry is highly diverse and of high quality and variety due to the competitive environment and frequent product differentiation.

Level	Descriptors	Marks
3	Expect a good knowledge of the facts and theory of the rational decision making by consumers, clear evidence of the ability to **use the market structure in the bubble tea industry to explain the impact on prices and output** with accurate reference to the question. Provision of a **well-balanced** discussion where the impact is on **both price and output.**	8-10
2	Expect an accurate although undeveloped explanation of the facts relating to the **use of market structure in the bubble tea industry to explain the impact on prices and output** together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. BUT do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor the ability to organise ideas into a new unity. **Max 5: For one set of analysis**	5-7
1	Answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped, Basic errors of theory or an inadequate development of analysis may be evident.	1-4

Bubble tea lovers in Singapore have the highest spending power of US$342 annually, with the bubble tea industry earning a profit margin of around 75%. The industry has enough room for larger and smaller players to co-exist and flourish. The emergence of new players who are good at branding, supply chain and cost management could pose an increasing challenge to existing local players.

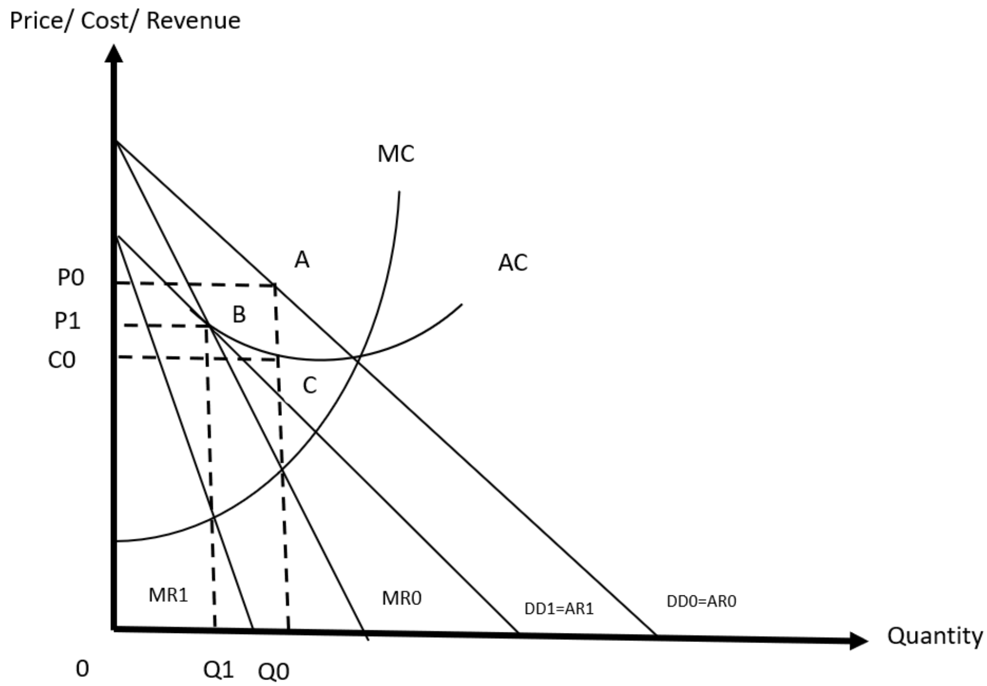
Explain how the market structure in which bubble tea industry operate is likely to affect the firm's pricing and output decisions. [10]

Discuss the potential benefits and problems that are likely to be experienced by the consumers and producers with the entrance of new competitors. [15]

Question Analysis:

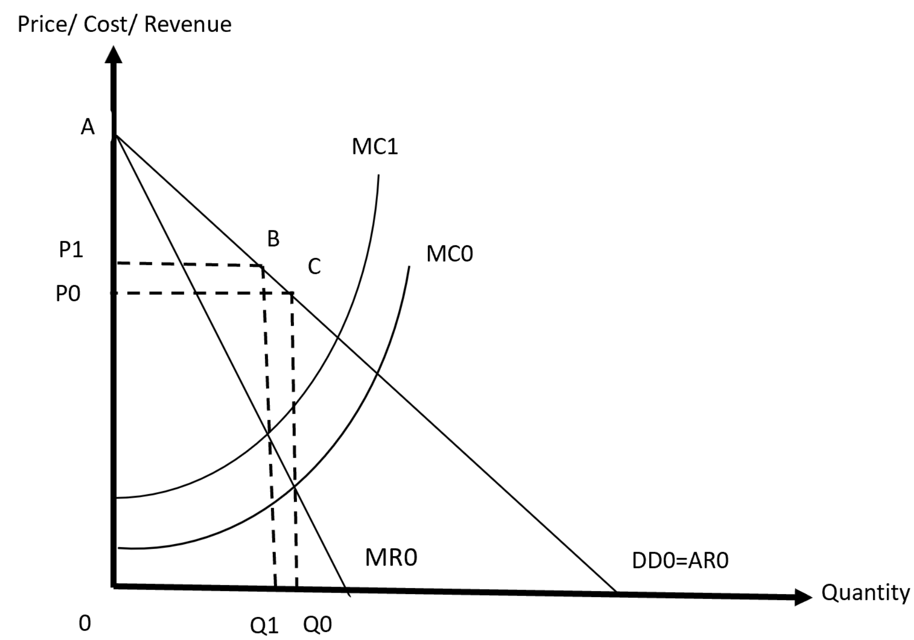
Command	Discuss (Considerations of both sides of the analysis)
Content	Entrance of new competitors-> consumers and producers (Benefits and Problem) Consumers: C.S, PQQV Producers: P.S, Profits (Revenue/ Cost)
Context	Bubble Tea Industry
Trigger	Entrance of new competitors who are good at branding, supply chain and cost management
End	IMPACT: Benefits and Problems Consumers: C.S, PQQV Producers: P.S, Profits (Revenue/ Cost)

Paragraph Development:

Point	With the entrance of new competitors, consumers would benefit more as the competition would drive down prices and improve on the quality of output.
Economic Analysis+ Example	 Increase in competition: - Increase in number of substitutes - Demand for the bubble tea of the incumbent firms will fall since the share of the consumer market has to be shared among more firms - DD0 to DD1 Consumers: Benefits - Prices charged will be lowered (P0 to P1) - Variety available to the consumers will be higher with more firms around - Quality of the Bubble Tea will improve with more product differentiation mentioned in part a) - E.g. Liho is known for their Cheese infused milk topping, Koi diversifies to different fruity tea dependent on season, Chi Cha San Sen who is known for the quality tea used, especially with

	every cup of tea made from controlled brewing technique, Playmade with their highly diverse toppings where their bubbles come in different flavours. Producers: Problems - Prices charged will be lowered (P0 to P1) - Quantity sold lowered (Q0 to Q1) - TR falls from (0P0AQ0 to 0P1BQ1) - Firms might be earning lesser profits as seen in the diagram from the original supernormal profit of C0P0AC to normal profit.
Link to ATQ	Higher competition is often seen to be desirable for consumers while not so for incumbent firms in the industry, however, this is also **dependent on the firm's ability to maintain the consumer market,** if the demand does not fall significantly given the branding and consumer loyalty, the implications on the fall in demand would be lesser and producers' impact via the fall in TR and Profits might be lesser. However, like what was mentioned in the pre-amble, where new competitors are good at branding, supply chain and cost management, this could mean that the competitors could be better at meeting the taste and preferences of the consumers where the demand would fall significantly. In addition, the ability to manage supply chain and cost meant that the new firms are able to enjoy more cost savings and charge at a lower price level, increasing the quantity demanded for the BBT as well. Eventually impact on the incumbent producers

Point	Higher competition often suggests lesser ability to reap internal economies of school which is detrimental to both consumers and producers.
Example	With a lowered output, bubble tea firms in the industry might be unable to enjoy cost savings from specialization via technical economies of scale. When the production level is too low, the bubble tea firm is unable to specialise the production process and the employee might have to take order, prepare and seal the drink, henceforth unable to specialise and reap internal EOS.
Economic Analysis	Increase in number of competitors: - Decrease in demand for specific firms due to the sharing of the consumer market - Decrease in Q - Decreases in the ability to reap internal economies of scale - Increase in average cost and the marginal cost of production - MC0 to MC1

	 Consumers: Problems - Higher Price level from P0 to P1 - Lesser quantity (Q0 to Q1) - Fall in the consumer surplus in accordance to the firm's diagram (P0AC to P1AB) Producers: Problems - Lowered ability to reap internal EOS - Higher AC - Lower profits made by producers
Link to ATQ	With more competition and firms in the industry, the ability to reap internal EOS is a significant problem as the pre-amble mentioned that the new competitors are good at branding, supply chain and cost management, meaning that their cost might already be lowered. Without the ability to reap internal EOS, the incumbent firms would incur a higher cost, earn lesser profit while being unable to compete with the new firms that are more effective in their cost management.

Conclusion:

Stand	Essential, consumers tend to benefit more from the increased competition in the market while producers tend to suffer more problems from the increased competition.
Substantiate	The extent of the problem is dependent on the ability of the firms to make its product remain demanded in the market in spite of the new competition. Example where Koi is able to maintain the consumer loyalty through the quality drinks created and service provided, even when new firms in the market like Chi Cha San Sen enters with their quality drinks, the impact on the fall in demand for Koi might be insignificance.
Suggest	Time period could be another element of discussion where in the short run, the competition might seem to be a problem for the producers who are unable to respond in time to the new competition. However, in the long run once the firms are able to respond to the new competition, the impact of the competition on the firms might not be significant.

Knowledge, Understanding, Application and Analysis	
● Answer is **relevant** to question requirements and covers sufficient **breadth** (the **potential benefits and problems** that are likely to be experienced by the **consumers and producers** with the entrance of new competitors) ● Answer has sufficient **depth**: o Rigorous and detailed economic analysis with the use of economic framework and clear explanation about the benefits and problems. o Consideration of both consumers and producers o In the context of entrance of new competitors. o **Relevant** and **accurate** use of economic concepts;	8–10
● Answer is mostly relevant to the question requirements with sufficient breadth: - Adequate explanation of (the **potential benefits and problems** that are likely to be experienced by the **consumers and producers** with the entrance of new competitors) that contain minor inaccuracies; ● Economic analysis is accurate but incomplete or lacks precision. ● Relevant diagrams are used but might not be accurately explained or applied to support economic analysis. MAX 6: - Good explanation of the impact on **1 economic agent** (with rigour and use of real-world examples to illustrate) MAX 6: - Good explanation of **the either the benefit or problem** on the **economic agent** (with rigour and use of real-world examples to illustrate)	5–7

• Adequate explanation of only one either the impact on one agent or one sided discussion with just the benefit/ cost without economic framework. • Unclear and/or inaccurate economic analysis.	1 – 4
Evaluation	
• Takes a clear overall stand that is **comprehensively justified** by providing convincing evaluative comments on the **relative importance of the factors** covered in the body and supported by **economic analysis**.	4–5
• Takes a clear overall stand that is only **partially justified and explained** or the arguments were unconvincing and/or inaccurate at times ***OR*** • Provides evaluative comments but overall stand is unclear ***OR*** • Provides insightful opinions which are however not directly relevant to the requirements of the question.	2–3
• Make an overall stand: **potential benefits and problems** that are likely to be experienced by the **consumers and producers** with the entrance of new competitors given a specific assumption/ context	1