

Module 2.2 Enquiry 2: Less means more

Learning outcomes	
1	Understanding of barriers to entry.
2	Application to a small-scale example of market imperfection.

Resources	Student sheets.
-----------	-----------------

Time	45 minutes.
Running the activity	This starts out as a straightforward comprehension activity based on a local newspaper article. Then in groups students can explore local evidence of market imperfections, based on their own general knowledge of businesses in the area. Finally they must think through the implications of these imperfections for the relevant stakeholders. The local element in this activity could take a lot longer.

Module 2.2 Enquiry 2: Less means more

Contracts axed as council claims ice-cream plot

Contracts for a score of ice-cream sites have been torn up after claims of collusion between people bidding for the pitches and of alleged corruption by officials.

Fraud squad officers were called in and an internal investigation was conducted by Leeds City Council officers following allegations.

No charges have been brought as a result of those enquiries but about 20 three-year contracts for 34 pitches in 23 city parks have been cancelled.

The small-scale park ice-cream sellers have denied they met in secret to fix tenders to keep rents low.

They are now protesting they are being forced out to make way for larger commercial groups able to pay more.

The council states the minimum it expects to earn from renting each site – that figure is

£35,000 for the five sites in Roundhay Park – prompting allegations that it runs an auction not a fair tendering exercise.

One ice-cream seller, who asked not to be named, said: ‘Some of the lads have bought brand new vans on the strength of their contracts. You cannot afford to get into debt and we all thought we had got the sites for five years. How could we fix the tender? When you apply for a tender you don’t know how many other people are also applying. There could be two people or ten. You could not get to everyone’.

In a letter to one trader who queried the cancellation of the selling licence, the acting director of leisure services cited alleged collusion between bidders and the claims that council officers had shown favouritism to one trader as the reason.

Source: Yorkshire Evening Post, 3.3.1998

Questions

- 1 Why would Leeds City Council be selling the right to sell ice-creams in its parks?
- 2 How would the ice-cream sellers benefit from buying the right to sell from specific pitches within the parks?
- 3 What is a tender? Explain why collusion between the bidders and a secret meeting would be against the public interest.
- 4 Explain in your own words why entry to this particular market is not free. What effect would the selling of rights to specific pitches have on consumers?
- 5 If collusion did take place (there is no proof that it did), what would the effects be on a) the council and council tax payers, b) the consumers and c) the ice-cream sellers?

Your agenda



In groups, identify six businesses which you know locally which benefit in some way from any kind of barrier to entry. Discuss the nature of the barrier and the impact it has. Then write in your own words an explanation of the effects of the barrier to entry for each of these businesses. Remember to include the effects on customers, employees, the owners/shareholders of the business and anyone else you think may have an interest in the matter.