

ACTIVIY for Module 4

Teachers' Notes

Learning outcomes	
1	Understand why businesses may compete or collude on prices.
2	Develop understanding of the effect on customers.
3	Develop understanding of elementary game theory.

Key skills	
WO	Opportunities to develop teamwork skills.

Resources	Copypmaster.
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Time	1 hour plus homework.
Running the activity	<p>Initial brainstorm to consider ways firms compete.</p> <p>Pairs or groups decide on high or low pricing strategy. Two pairs or groups work together and set prices ten times, using results sheet to record.</p> <p>Competing groups discuss the decision and explain their actions. Groups report to class.</p> <p>Debriefing to cover strategy, collusion, effect on customers and introduce idea of game theory.</p> <p>Write up for homework.</p>

What do you know about competitive businesses?

Spend five minutes identifying the different strategies which a supermarket might adopt to gain an advantage over its few large rivals.

Keeping your nerve

Two rival, profitable businesses are considering a price change to get an advantage in the market place. What should they do?

- 1** You represent one of the businesses. You must decide whether to take a low-price or high-price strategy. The grid on the results sheet shows you the profits you and your rival will make if you set high or low prices and if the other also sets high or low prices.

Decide on a strategy. Note down your decision and the reason behind it. Declare the decision together with your competitor. Note down the result and the resulting profit. Repeat this ten times, noting the results each time.

- 2** When you have finished, discuss your strategies and your results with your competitor.

How often did the price strategy change? Would there have been benefits for customers.

- 3** Repeat your findings to the rest of the group. Was everyone's behaviour similar? Did any pairs of businesses fix the price?

Why would this happen? What effect would it have on customers?

- 4** Make notes of different strategies and the underlying reasons.

Under what circumstances would such firms:

a) engage in price wars

b) join together to agree on prices?

How different would your strategy be if there were ten firms rather than two in the market?

To what extent would price stability be preferable to price wars for consumers?

What can businesses do if they can't collude and don't want a price war?

Results sheet

		Business B	
		Low price	High price
Business A	Low price	£5m £8m	£3m £13m
	High price	£10m £5m	£13m £10m

Record of decisions

Period	Price strategy (high, low)	Reason	Other firm's strategy	Profit
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				