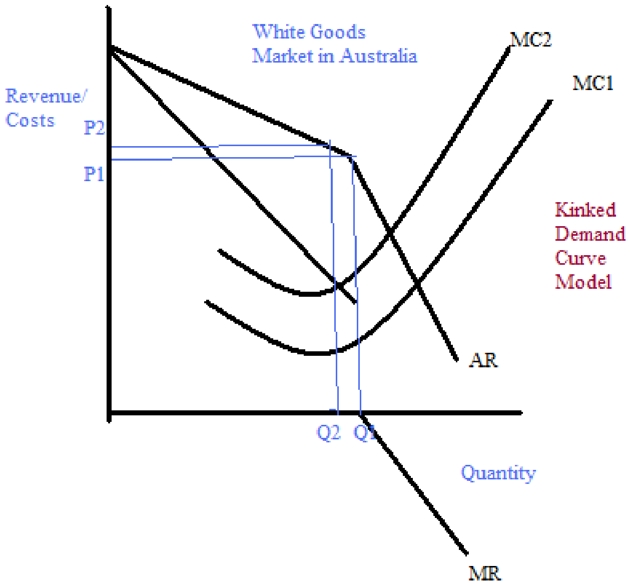
Part B:

i. Spend-Easy, a retail chain specializing in the sale of white goods. The firm is one of four large white goods retailer's with a 20% market share in Australia.

As the firm is operating in Oligopoly it has a market share in Australia, and this helps in both price and non price competition among the four firms in the market. When an external shock of a multinational retailer in white goods launching a strategy to open 20 new stores in Australia, the market supply is expanding to the extent that in place of four players in Australia, there is a entry of a new firm, which adds up to existence of five players in the market of white goods. The other shocks of bumper harvest; dramatic increase in compensation cases; Ford to close some of its existing plants; increase in the labour costs in construction industry will not affect the white goods industry as an entry of a new supplier of white goods would do.

Supposing the oligopolistic market in white goods industry is following a kinked demand curve model where the prices are sticky where the MC cuts the MR at the gap at which point there is a kink in the AR curve of the firm. This is shown in the figure below. The kink in the demand curve of the market shows the fact that the demand above the kink is relatively more elastic and any change in the supply curve that will shift the MC curve upwards will have a effect on its price and this price change is small if the demand curve is more elastic and the price change will be more if the demand curve is less elastic.
The supply shock of a multinational retailer entering the market is the increase in the costs of production that will shift the MC curve upward from MC1 to MC2. This results in a price increase to the amount of P1 P2 where P2 is the new price at which the firms sell their product. If the increases in costs are so small that the new MC curve cut the MR curve in the Gap itself, there will be no change in price. But if the new MC curve cuts the MR even before the kink as shown in the figure below, then the price will increase and that will have a negative impact on the quantity sold by the existing firms and their profitability.



In the above figure there is a kink in the demand curve AR which gives a gap in the MR curve. As long as the MC cuts the MR in the gap, the prices will be sticky around the same place, as in the oligopolistic market, if the firms increase their prices they fear losing the market share to those who have not increased the prices. And if the firms decreases the prices, the other firms in the market will follow suit. When there is a entry of new multinational retailer in the white goods market, the marginal costs of supplying the product increases and shifts upward to MC2 which increases the market price to P2 in the market.