- Measure of how easy it is for firms to enter/exit an industry/market
- Contestable markets are:
  - Low barriers
  - New firms entering and exiting
  - Low sunk costs (unrecoverable costs i.e costs that cannot be recovered if firm closes down)
  - Low levels of SNP
  - Low levels of collusion or other oligopolistic features
- A low degree of contestability is characterised by the opposite as above, the main reason being high sunk costs (barriers to exit) and also a high concentration ratio (a small number of firms have a large market share)
- Competitiveness, contestability and concentration are different
  - High competitiveness could be a sign that barriers to entry are low, but this doesn't always imply low contestability
  - A monopoly can be contestable but firms choose not to enter market because profits are low

Barriers to Entry and Exit

- Obstacles that prevent a firm from operating in a new market
- Types (Barriers to entry):
  - Artificial (strategic) - Some deliberately imposed and seen as illegal anti-competition (by regulators)
    - Predatory pricing
    - Limit pricing
    - Brand Loyalty
    - Loyalty schemes

        - Switching costs
    - Natural (structural) - Barriers may exist due to nature of market
        - Economies of scale
        - High start up costs (think of specialised machinery)
        - Ownership of key resources
    - Legal - Imposed by authorities, where competition is seen as working against consumer (think of natural monopolies)
        - Patents
        - State owned franchises (Rail network)
        - Licenses to allow firms to operate (5G licenses)
- Barriers are relevant in determining market structure and affect SNP
- Types (Barriers to exit/sunk costs):
    - Advertising (incurred in promoting product that cannot be recovered if firm leaves market)
    - Costs of closure (redundancy costs, loans and costs of early termination of contracts)
    - Cost of specialised machinery that is not transferable to other industries
- If asked to evaluate whether a market is contestable, comment on data and talk about both sides of the arguement