



Worksheet 10.1

Bali's Oligopolistic Scuba Operators

Scuba diving is a popular activity on the Indonesian island of Bali. It should not come as a surprise that in a destination that attracts as many tourists as this beautiful island, local entrepreneurs will find many opportunities for revenues and profit. The market for scuba dive operators, depending on which town you are in, may demonstrate many of the characteristics of oligopolies.

In the town of Ahmed, for instance, in Bali's northeast corner, you will find there are around ten dive operators offering packages to the local dive spots (including one of Asia's most famous dives, the WWII-era USS Liberty wreck). Eco-Dive, one of the local operators, offers dives on the Liberty for \$60 a day, which includes two dives and gear rental. After poking your head in some of the other local shops, you'd find that \$60 is the average price for a day of diving among the ten operators in Ahmed.

Now drive three hours west along the coast of Bali to the town of Pemuteran, a remote and relatively undeveloped area on the northwest coast just across the straits from Java, also known for its great diving. Take a walk along Pemuteran's long, white sand beach and you will notice that there are only three dive operators to choose from! And guess what, they all charged between \$95-\$105 for a day of diving. That's around 60% more than the operators in Ahmed charge! The package offered for your \$100 gets you two dives plus gear rental, exactly what was offered for only \$60 in Ahmed.

Pemuteran's scuba operators are on the same island, employing dive masters with the same type of training, and renting equipment of identical quality to those in Ahmed. Yet they are charging a rate 60% higher than the dive operators three hour's drive to the east. Why might this be?



Questions:

1. What was the difference between the scuba diving markets in Ahmed and Pemuteran? Which market was more competitive? Which of the four market structures did the two markets most resemble: perfectly competitive, monopolistically competitive, oligopolistic or monopolistic?



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2. How were the dive operators in Pemuteran able to charge 60% more than the operators in Ahmed?
3. What do you think is keeping one of the three dive operators in Pemuteran from lowering their price to, say, \$60 for a day of diving? How would the other two operators respond? Would this be good or bad for the dive operators of Pemuteran? Would it be good or bad for scuba divers?
4. Assuming that the cost of opening a dive operation was relatively low, and there were no government or other barriers to doing so in Pemuteran, what do you suspect will happen in the Scuba diving market as the tourism industry continues to develop in the remote town of Pemuteran? Explain.
5. Which village's dive operators do you think were more 'efficient' in their use of resources? Explain.
6. Using a kinked demand curve diagram, illustrate the market for dive operators in Pemuteran. Referencing your diagram, explain why the price for a day of diving in Pemuteran is likely to remain stable at around \$100, and is unlikely to rise or fall in the short term.