Oligopoly

↓ a market with few number of sellers.

(competition among the fews).

Meaning: An Oligopoly market situation is also called 'competition among the few'. This industry is dominated by few firms.

↑ these firm sell homogenous (identical) or differentiated products.

∴ Oligopoly is either perfect or imperfect/differentiated.

Some examples of oligopoly market are automobiles, cement, steel, aluminium etc.

Characteristics of Oligopoly Market:

1. Few firms:
2. Barriers to Entry: Under Oligopoly, a firm can earn super-normal profit ($\pi > 0$ → $TR > TC$) in the long run as there are barriers to entry like patents, licenses, control over crucial inputs etc prevents

crucial inputs etc prevents new firms from entering the market.

3. Non-price competition: Firms try to avoid price competition due to the fear of price wars in Oligopoly and hence depends on non-price methods like advertising, after sales service, warranties etc. This ensures that firms can influence demand and build brand recognition.

4. Interdependence: Under oligopoly, since a few firms hold a significant share in the total output of the ~~firm~~ industry, each firm is affected by the price and output decisions of rival firms.

Therefore, there is a lot of interdependence among firms in an oligopoly market.

5. Nature of the product: products are either homogeneous or differentiated.

6. Selling Cost: Since firm avoids price competition there is a huge interdependence

there is a huge interdependence among firms, selling cost are highly important for competing against rival firms for large market share

7. No unique pattern of pricing behaviour:

Under oligopoly firms want to act independently and earn maximum profits on one hand and cooperate with rivals to remove uncertainity on the other hand.

Depending on motives, situations in real-life can vary making predicting the pattern of pricing behaviour.

8. Inderminateness of the Demand Curve:

Unlike other market structure ex → PC, Monopoly, MC, in oligopoly it is not possible to determine the demand curve of a firm.

... there is a huge

the demand curve of the ...

This is because on one hand, there is a huge interdependence among rivals and on the other hand there is uncertainity regarding the reaction of the firm.

firms behaviour under Oligopoly:

Based on objectives of the firm, the magnitude of barriers to entry and the nature of government regulation, there are different possible outcomes in relation to a firm's behaviour under Oligopoly.

These are:
1. Stable price
2. Stable quantity
3. Price wars
4. collusion for higher prices.

Further Oligopoly can be collusive (cartel) or non-collusive

OPEC

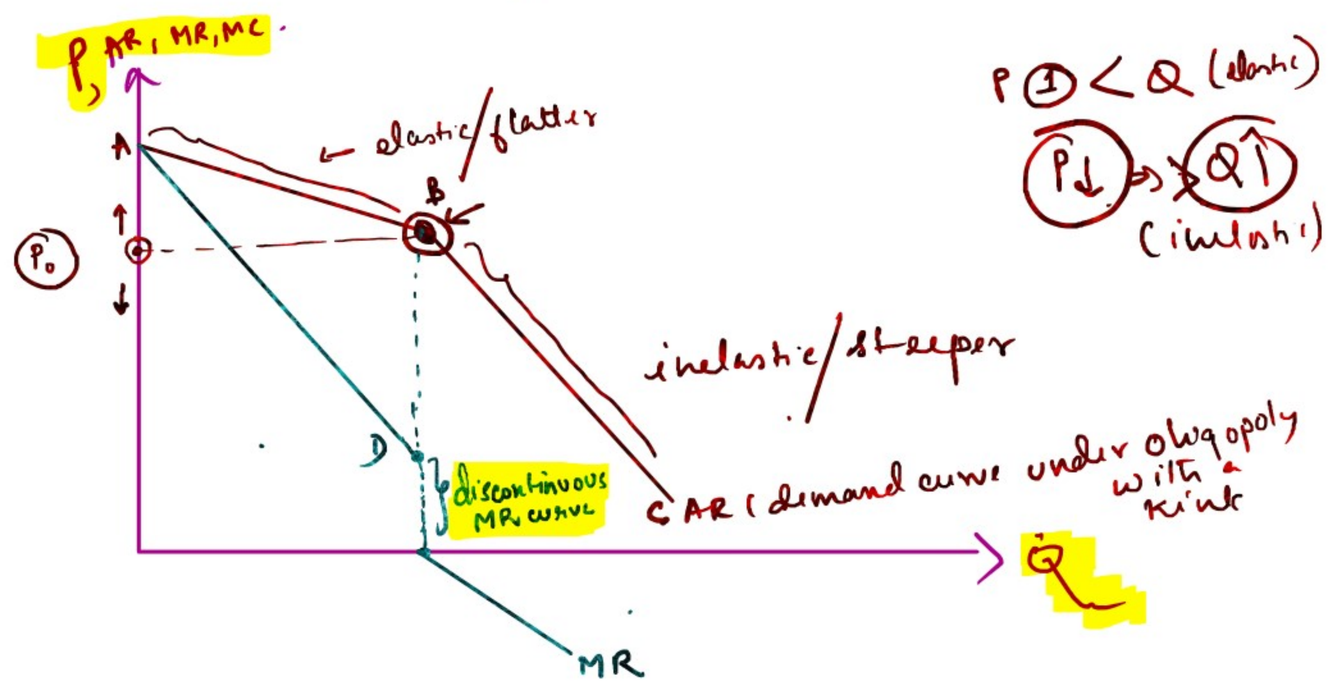
Collusive Oligopoly: market situation wherein the firms

Collusive Oligopoly: market situation wherein the firms cooperate with each other in determining price or output or both

Non-collusive Oligopoly: market situation where the firms compete with each other

Concept of Kinked-Demand Curve (Price-Rigidity)

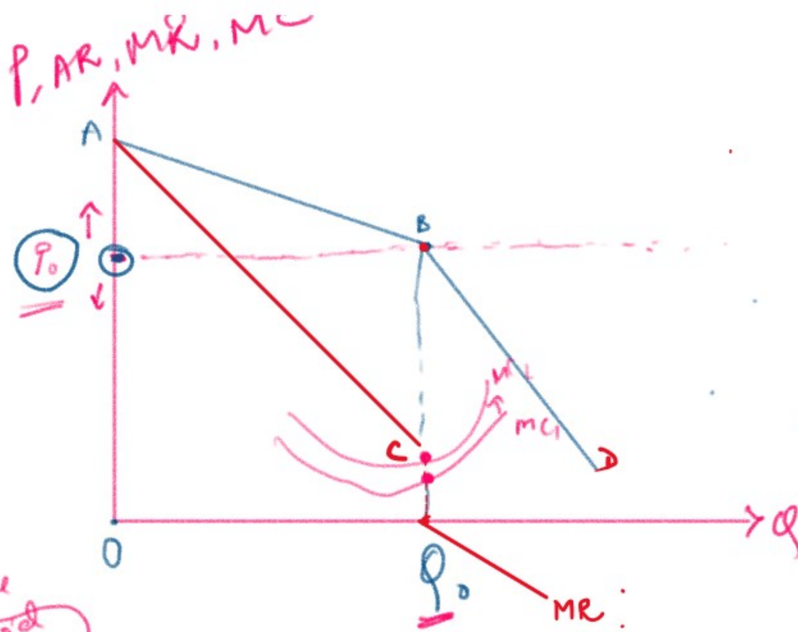
(Non-collusive Oligopoly — Sweezy's Kinked Demand Curve model)



Oligopolists P, AR, MR, MC

Oligopolists have a tendency to stick to their prices.

1. They will not fix price (fear of loosing customers.)
2. They will not decrease price to avoid price war.



Game Theory -

1. Dominant Strategy Nash Equilibrium
2. Best Response Method.

- game → situation where participants make suitable decisions
- payoff → outcome of game (or every strategy)
- strategy (plan of playing or making decision) and optimal strategy → the best decision. (max profit).

What is dominant strategy?

↳ strategy that is optimal (or always chosen by a player) no matter what.

(Add, Add) ... equilibrium

Firm B

∴ (Add, Add) is the Dominant strategy Nash Equilibrium

Firm B

Firm A	Ad	Don't Ad
Ad	10, 5	15, 0
Don't Ad	6, 8	10, 2

If FB choose Ad ⇒ FA chose (Ad)

If FB choose D Ad ⇒ FA choose (Ad)

Ad is dominat strategy of A.

Firm A choose Ad ⇒ B chooses (Ad)

Firm A choose DAd ⇒ B choose (Ad)

Ad is the dominant strategy of firm B.