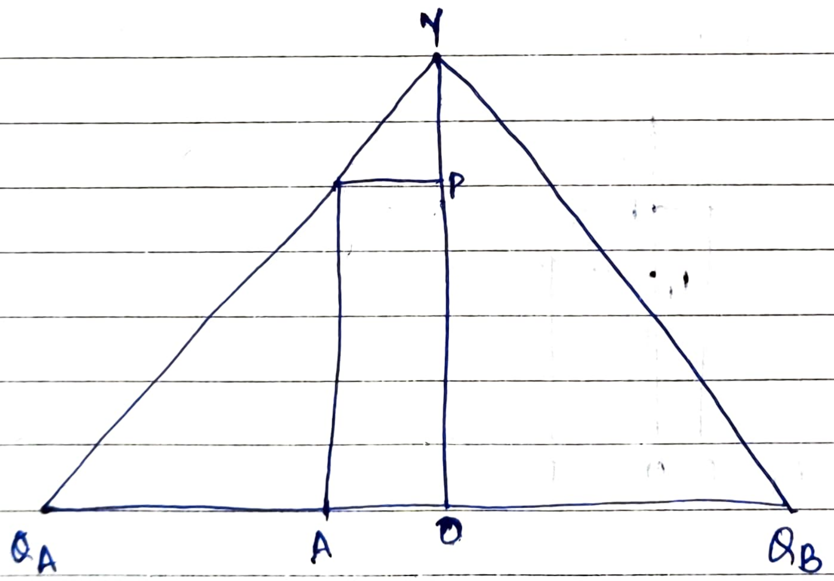
Bertrand Model of Oligopoly:

Assumptions :-

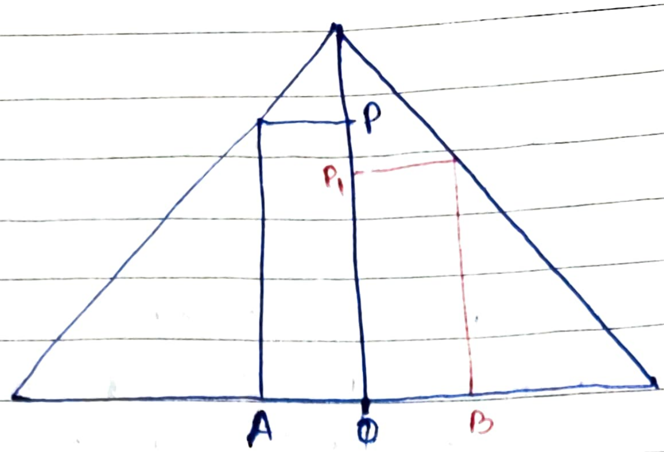
→ firms producing idendical products
→ firms have unlimited production capacity.
* → A reduces its product price assuming B keeps its price constant
similarly,
B reduces its product price assuming A keeps its price constant.

OY → price line
left Δ → A firm
~~left Δ~~
Right Δ → B firm



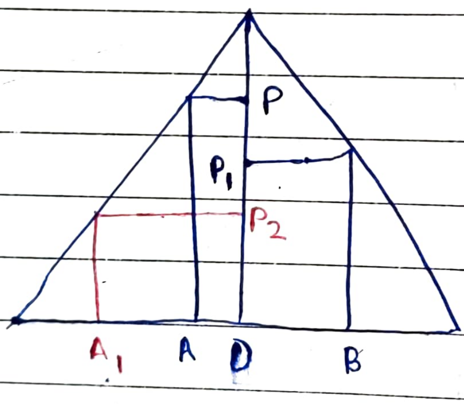
→ A firm producing first in the market, Its performing in the market at OP price and producing OA output.

→ Now B assumes that A is going to keep the price constant & thinks of decreasing its own price to gain customers.

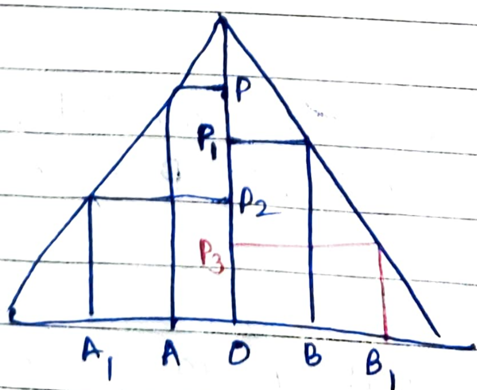


so B comes in the market with OP_1 price producing OB quantity.

→ Now A realizes that customers are going to B, so A reduces its price from B's price.



Next B reduces price furthur



How long this keeps going on?

The limit is Average cost (AC).

→ when the price reaches to Average cost, firms will not reduce price further.

At a point, firms can play monopoly game and ~~come~~ can mutually decide to a high price and both can gain profits.