# Chapter 16

Oligopoly

### Introduction

- Think of mobile, computers, online shopping platforms, and so forth...
- It is neither monopoly nor perfect competition
- Imperfectly competitive market: oligopoly
- Oligopoly: few sellers, selling identical products

#### Outcome variation

PC: outcome is 0 unit

Monopoly: 60 units

Oligopoly: form a cartel (collusive) and produce 60 units

Nash equilibrium (non-collusive):

80 units

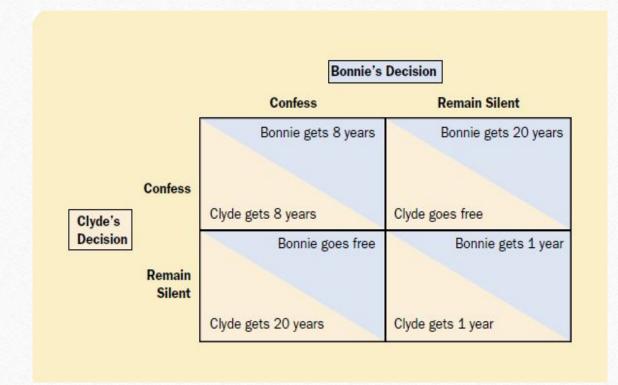
QUANTITY (IN GALLONS)	PRICE	TOTAL REVENUE (AND TOTAL PROFIT)
0	\$120	\$ 0
10	110	1,100
20	100	2,000
30	90	2,700
40	80	3,200
50	70	3,500
60	60	3,600
70	50	3,500
80	40	3,200
90	30	2,700
100	20	2,000
110	10	1,100
120	0	0

### Size

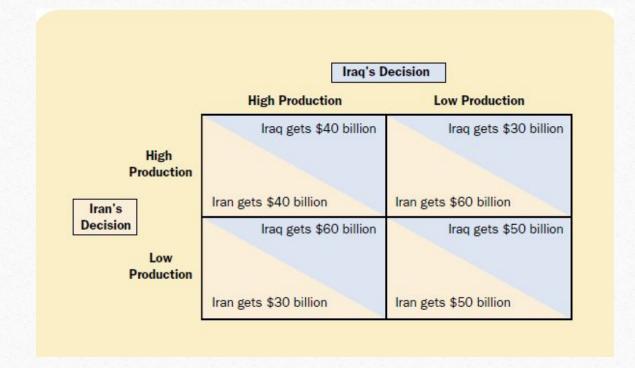
- Output effect: at a given price, 1 unit increase in output will increase the profit
- **Price effect:** increase in output increases the total supply, hence, price will fall, and so as the profit
- Net effect depends on these
- As the number of firms increases, the price effect becomes negligible

#### Prisoners' dilemma

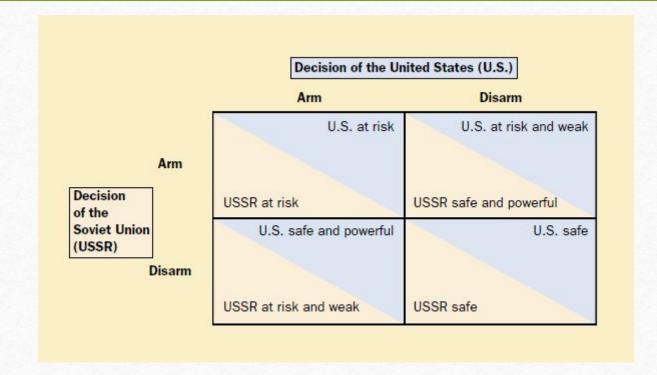
"Right now, we can lock you up for 1 year. If you confess to the bank robbery and implicate your partner, however, we'll give you immunity and you can go free. Your partner will get 20 years in jail. But if you both confess to the crime, we won't need your testimony and we can avoid the cost of a trial, so you will each get an intermediate sentence of 8 years."



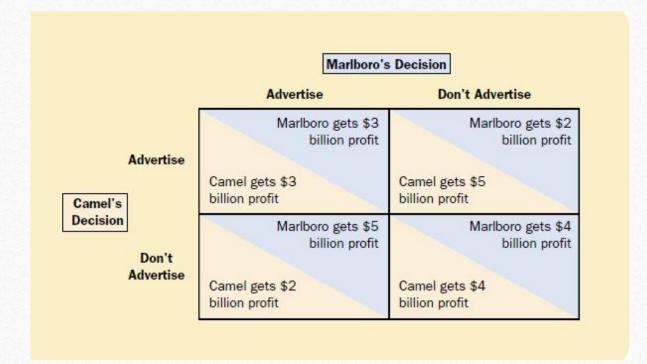
## Feasibility in oligopoly



### Cont...



### Cont...



# Controversies over anti-trust policy

- Resale price maintenance
- Predatory pricing
- Tying