* Oligopoly behavior – mutual interdependence; actions of one firm influenced by other
* Non-collusive vs. collusive -> CARTEL (ex – OPEC); illegal
* (formally acting as one)
* explore non-collusive…
  + Price leadership – one large firm sets price, several smaller firms match
  + Kinked Demand Curve – assume 3 firms
    - Assume price decreases; ignore price increases
    - Firm A – D1 elasticity > D2 (D1 slope more steep)
      * D1 - w/e A does, B&C match
      * D2 – w/e A does, B&C ignore
      * Erase top of D1/MR1 & bottom of D2/MR2 from intersection
        + MC can vary anywhere between MR vertical gap; won’t vary airline’s P/Q decision – “sticky prices”
  + Contestable Markets – even if oligopolistic, may behave more as perfectly competitive b/c of threat of entry into market
    - Characterized by mobile capital
  + HHI and Concentration – how many markets, & concentration
    - 4 firm & 8 firm concentration ratio (Herfindahl Index)
      * add up market share of largest firms
      * same concentration ratio =/= same concentration
      * HHI – add squares of each firm; 0-10,000 range

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Industry 1 |  |  | Industry 2 |  |
| Firm 1 | 25 | 50  25  25 | Firm 1 | 30 |
| Firm 2 | 25 | Firm 2 | 25 |
| Firm 3 | 25 | Firm 3 | 25 |
| Firm 4 | 25 | Firm 4 | 20 |
|  | 100 |  |  | 100 |
| HHI | 2500 | 3750 | HHI | 2550 (more conc) |

* Most harmful to consumer? – oligopoly, not monopoly
* Monopoly – regulated to some extent
* Oligopoly – few firms, but tend to be unregulated