

# **LECTURE 3.4**

## **OLIGOPOLY**

# OLIGOPOLY

Characterized by:

- 'Few' firms amongst which there is strategic interaction
- Products may be homogeneous or there may be heterogeneity
- Barrier to entry

Classic examples include industries like automobiles, steel, cereal and airlines.

There are many different types of oligopoly. How do we model this strategic interaction?

Number of ways, with the simplest being the following ....

# OLIGOPOLY – *NASH EQUILIBRIUM*

Consider the following pricing game for WonCo and TuInc.

		<b>TuInc</b>	
		<b>Price Low</b>	<b>Price High</b>
<b>WonCo</b>	<b>Price Low</b>	<b>\$20, \$40</b>	<b>\$40, \$0</b>
	<b>Price High</b>	<b>\$200, \$250</b>	<b>\$400, \$200</b>

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Consider the following pricing game for WonCo and Tulnc.

		<b>Tulnc</b>	
		<b>Price Low</b>	<b>Price High</b>
<b>WonCo</b>	<b>Price Low</b>	\$20, <b>\$40</b>	\$40, \$0
	<b>Price High</b>	<b>\$200</b> , <b>\$250</b>	<b>\$400</b> , \$200

# OLIGOPOLY

The Nash Equilibrium in the above game represent the non-cooperative solution in that each firms makes its best choice (maximize profits) given the behaviour of the other firm.

Note that the outcome above does not represent the best outcome for the firms....

*Why?*

*How might a better outcome be achieved?*

*Would it work? Why or why not?*