overturned the widely-held belief that (nearly) perfect competition in the real world required large numbers of buyers and sellers. Smith showed that, in situations involving few traders, each with no direct information of the others' costs or values, outcomes could approximate perfect competition. Later work confirmed Smith's finding that experimental markets can produce competitive outcomes even when very few traders are involved. In other words, so long as collusion among buyers is prohibited, large numbers of buyers and sellers are not necessary to come very close to the price and quantity that the model of perfect competition predicts for homogeneous products.

C. The Pure Monopoly Model: Extreme Market Power

When a single seller supplies a market and there is no real threat of entry, the seller is a monopolist. Monopolists have the ability to charge prices above the competitive level, which they accomplish by limiting their own output and thus the market's output. The monopolist's marginal revenue, not market demand, determines the profit-maximizing price and quantity.¹¹

See Charles A. Holt & Alvin E. Roth, The Nash Equilibrium: A Perspective, 101 PNAS (PROCEEDINGS OF THE NAT'L ACAD. OF SCI. OF THE U.S. OF AM.) 3999, 4001 (2004). Smith was a co-winner of the 2002 Nobel Prize in Economics for this work.

^{10.} See Charles R. Plott, Industrial Organization Theory and Experimental Economics, 20 J. ECON. LIT. 1485, 1486 (1982) (focusing on market institutions rather than numbers of firms). Auction markets are a special case. Extensive literature in auction theory, experimentation, and empirical observation has developed around the question of how market design (i.e., the rules and institutions governing auctions) affects outcomes. For additional discussion of auction markets, see several articles on these subjects in THE NEW PALGRAVE DICTIONARY OF ECONOMICS, available at www.dictionaryofeconomics.com.

See Carlton & Perloff, supra note 1, at 89-93.