



# The Kinked Demand Model of Oligopoly

My competitors will not  
increase their price and I  
will lose a lot of sales



S

S

U

m









6





2

































9











**Y**

U

S



S



















W







9





6

S













2

**b**



U







S













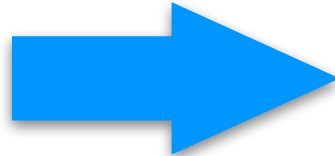






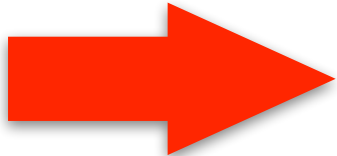


If I increase my price



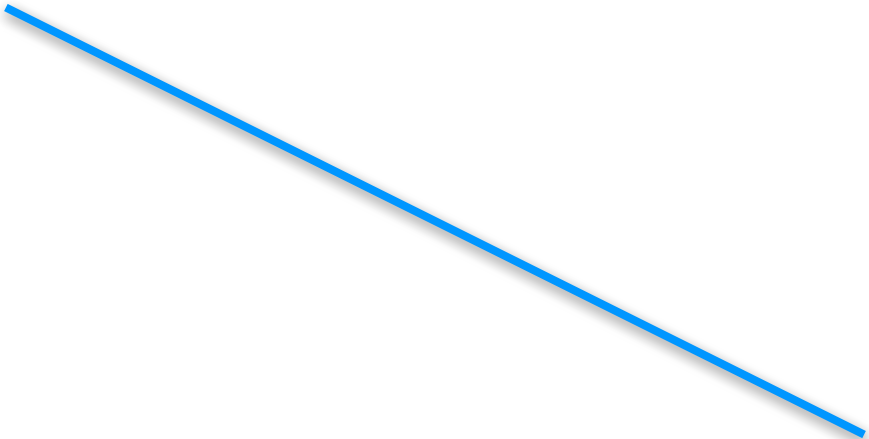
My competitors will also  
decrease their price and I will  
gain very little in extra sales

If I decrease my price









Do

$P_0$



$Q_0$

$P_1$  - - - -

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|  
|  
|  
|  
|

$Q_1$

Quantity  
demanded  
drops by 20%



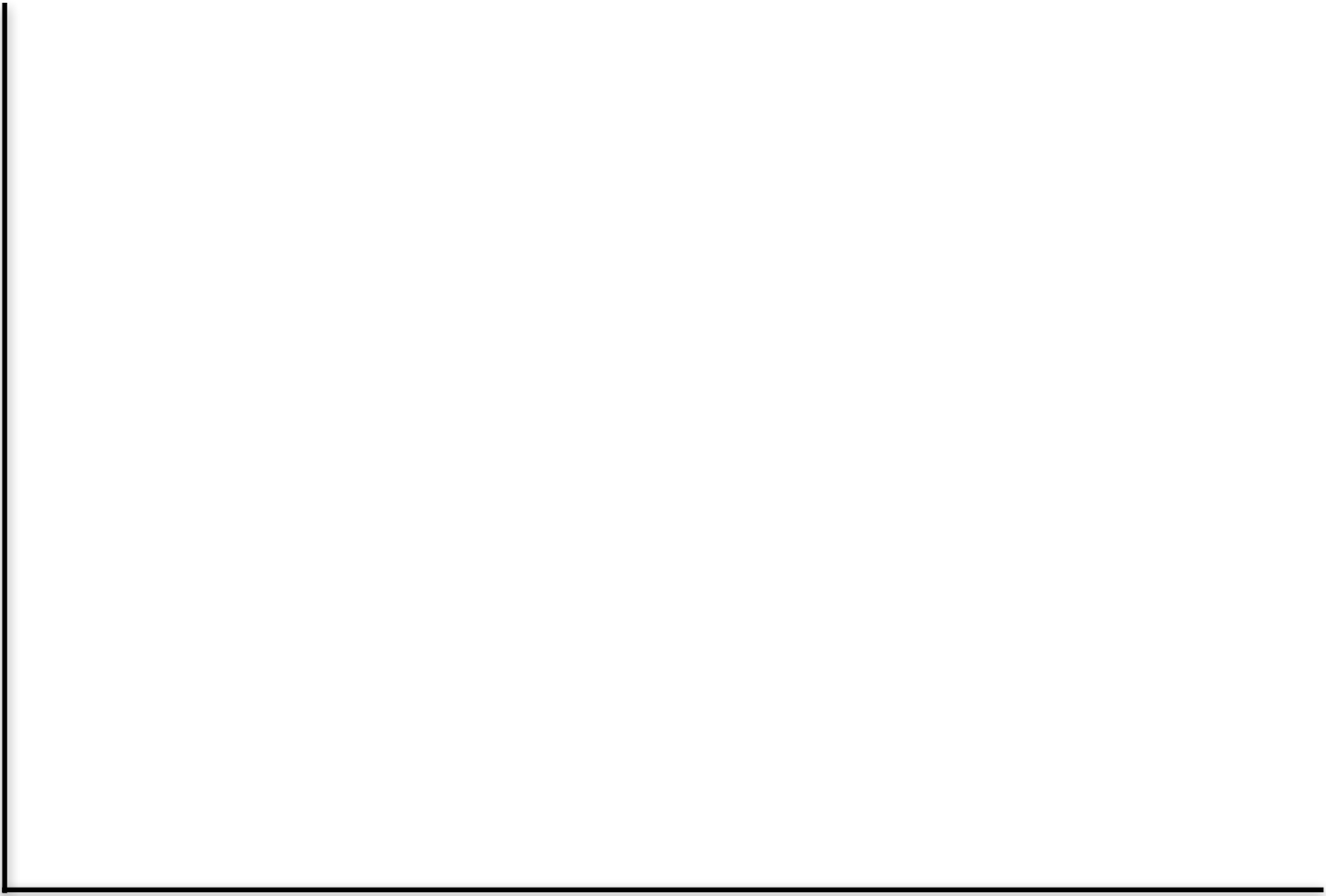
I increase  
price by  
10%











$P_0$



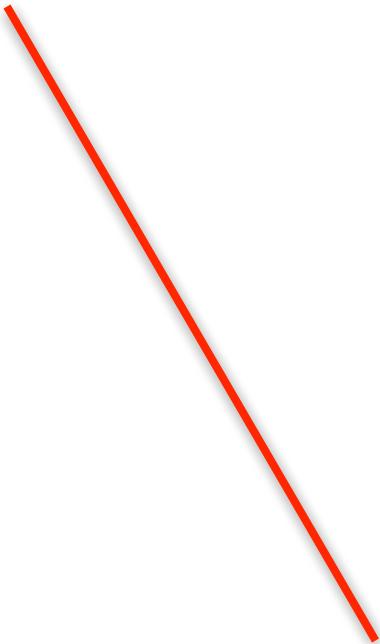
$Q_0$

I decrease  
price by  
10%



Quantity demanded  
increase by 5% →





**D<sub>1</sub>**

Quantity  
demanded  
drops by 20%

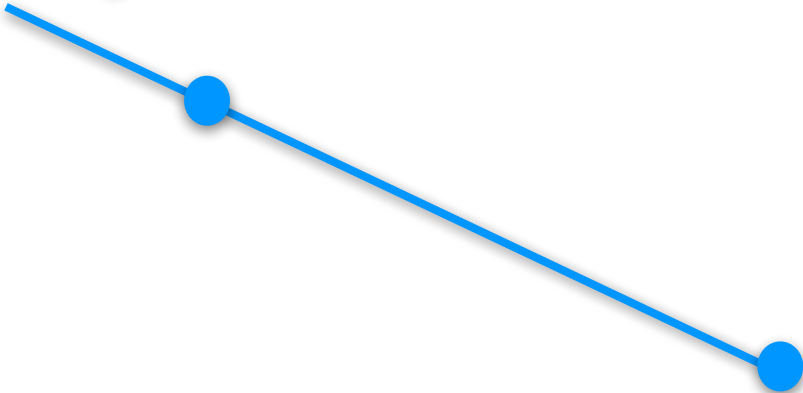




I increase  
price by  
10%



$D_0$

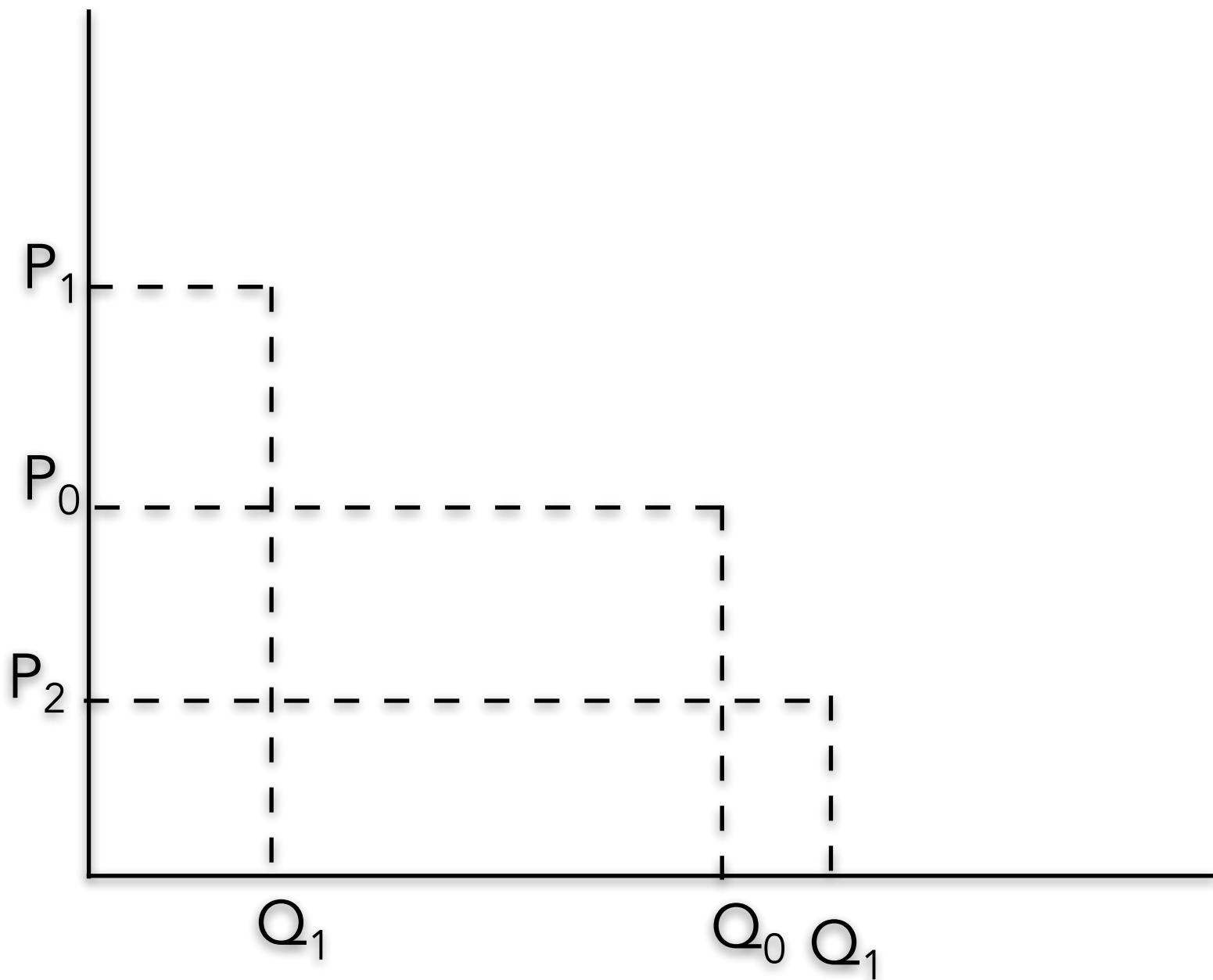


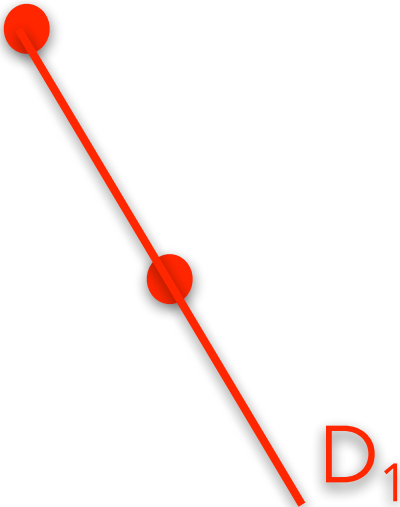
I decrease  
price by  
10%

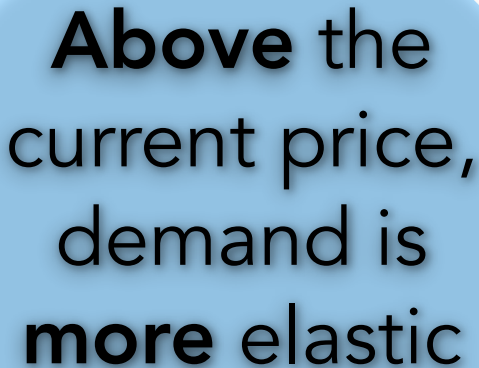


Quantity demanded  
increase by 5%

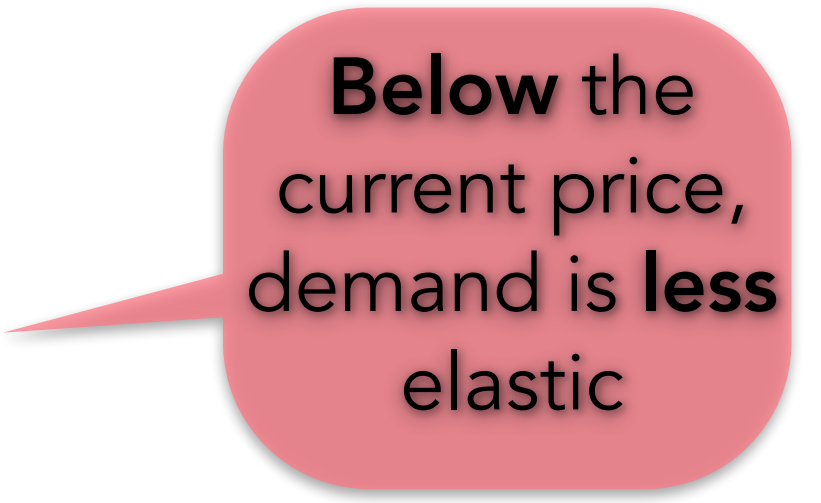








**Above** the  
current price,  
demand is  
**more** elastic

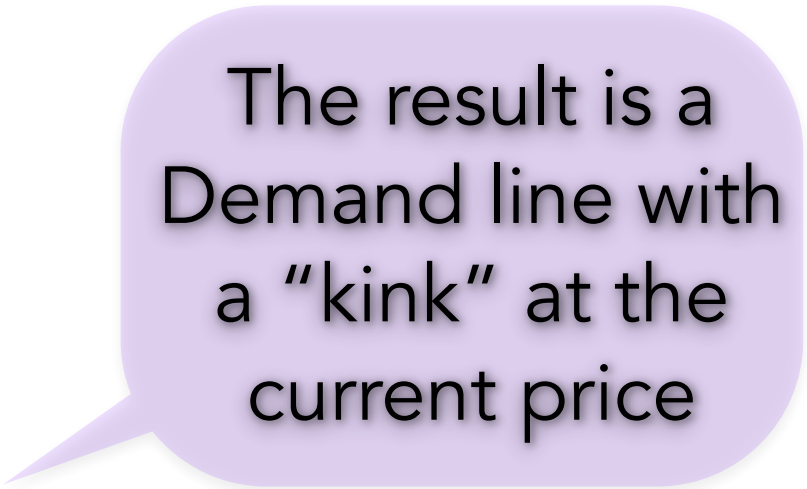


**Below** the  
current price,  
demand is **less**  
elastic









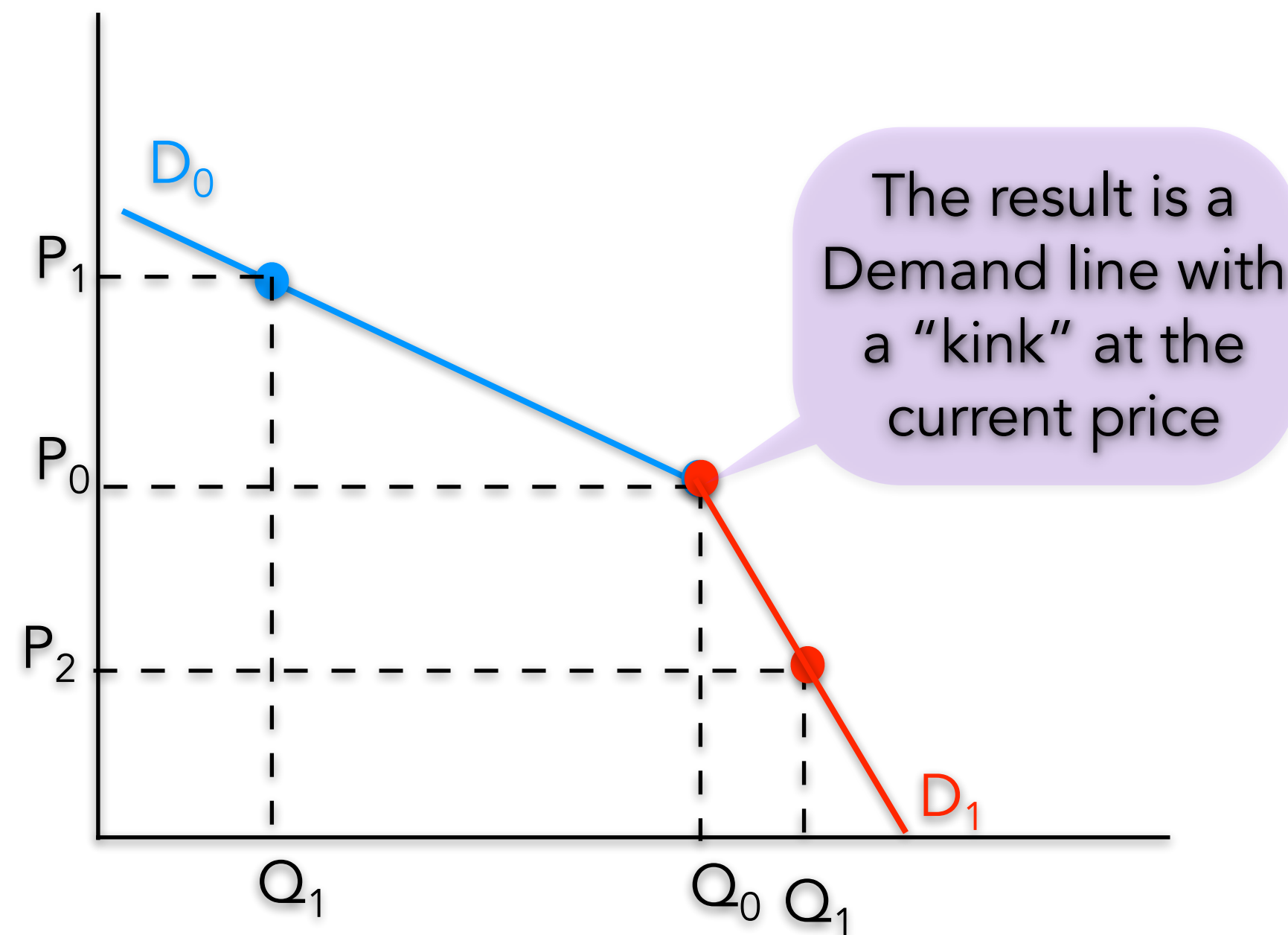
The result is a  
Demand line with  
a “kink” at the  
current price

Assume that each firm in the Oligopoly uses the following reasoning about its competition:

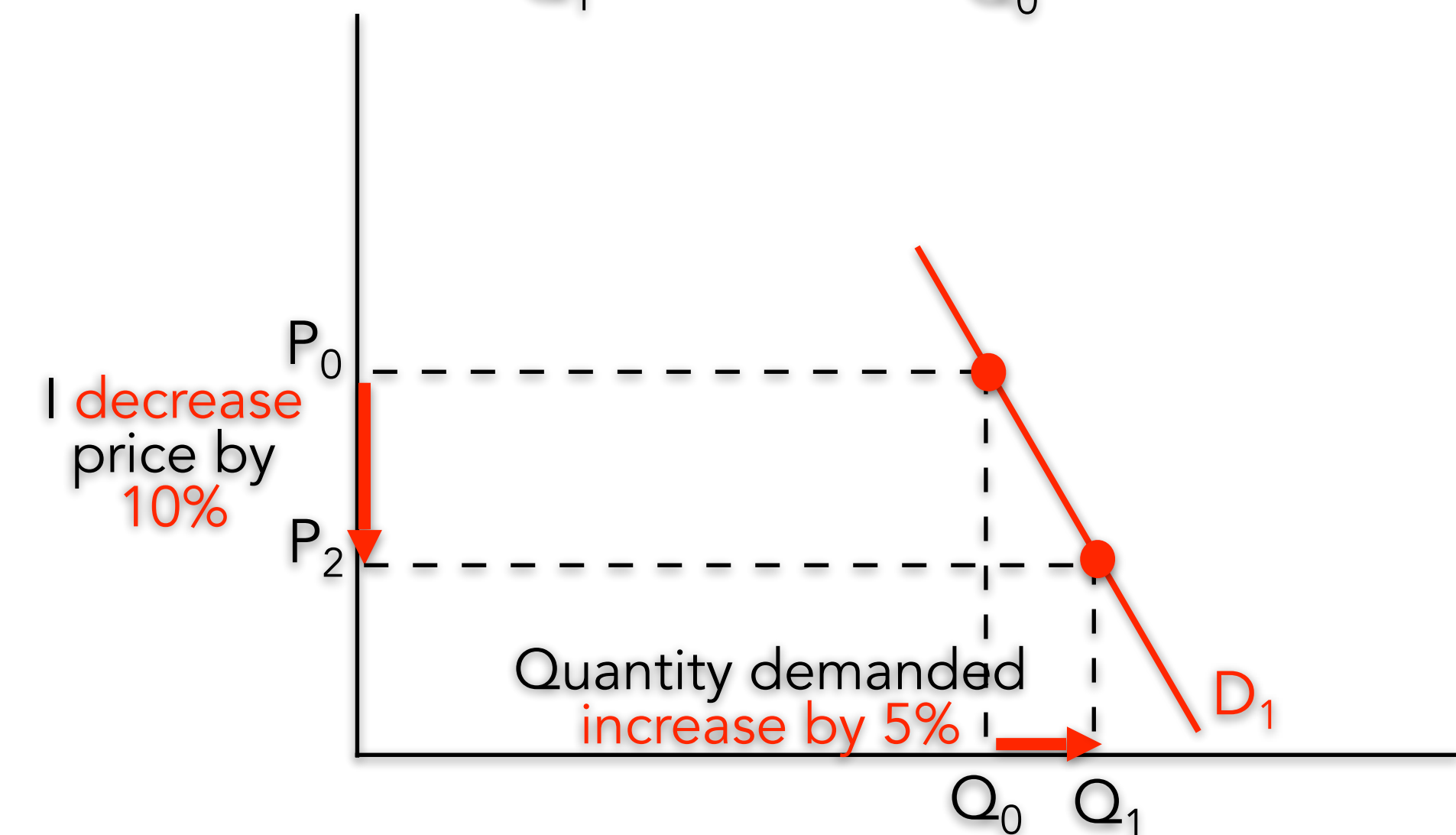
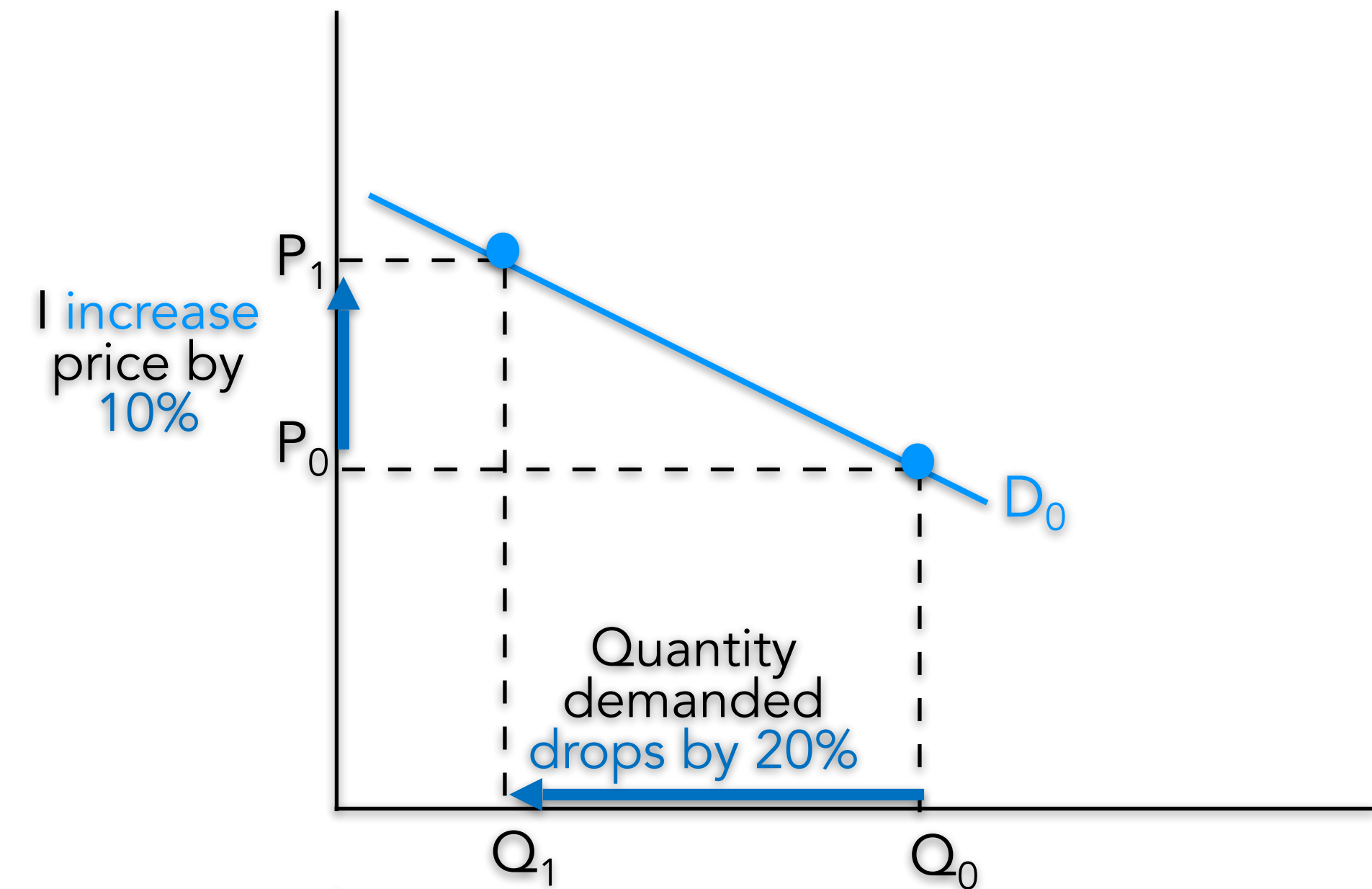
# The Kinked Demand Model of Oligopoly

Assume that each firm in the Oligopoly uses the following reasoning about its competition:

If I **increase** my price → My competitors **will not** increase their price and I will **lose** a lot of sales



If I **decrease** my price → My competitors **will also** decrease their price and I will **gain very little** in extra sales



# Price and Output Determination in the Kinked Demand Model of Oligopoly