

Models of Oligopoly Behavior

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Collusion:

o The Cartel model: Firms agree to act as one

- Price Leadership model: One firm in the group (often the largest) makes pricing decisions and the rest “tacitly” follow.

◆ The Kinked Demand Model (for the special oligopoly case of Duopoly) Explains “price stickiness”: the fact that oligopoly prices change less frequently than in perfectly competitive markets

◆ The contestable market model: The group behaves as PC market.



Strategic Interaction: Game Theory

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The Cartel (Collusion) Model