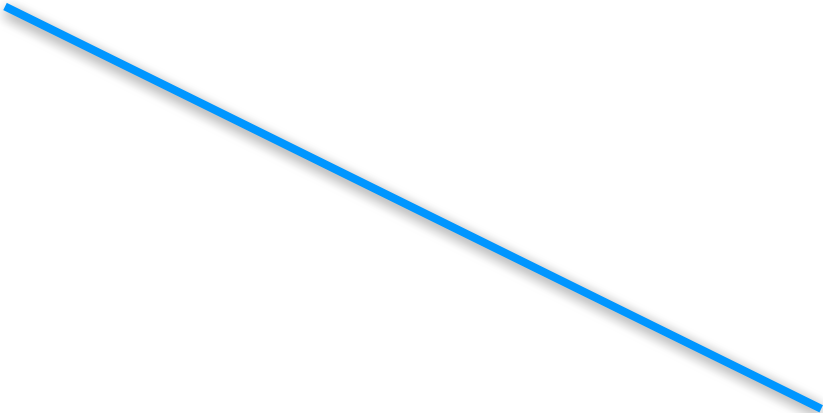
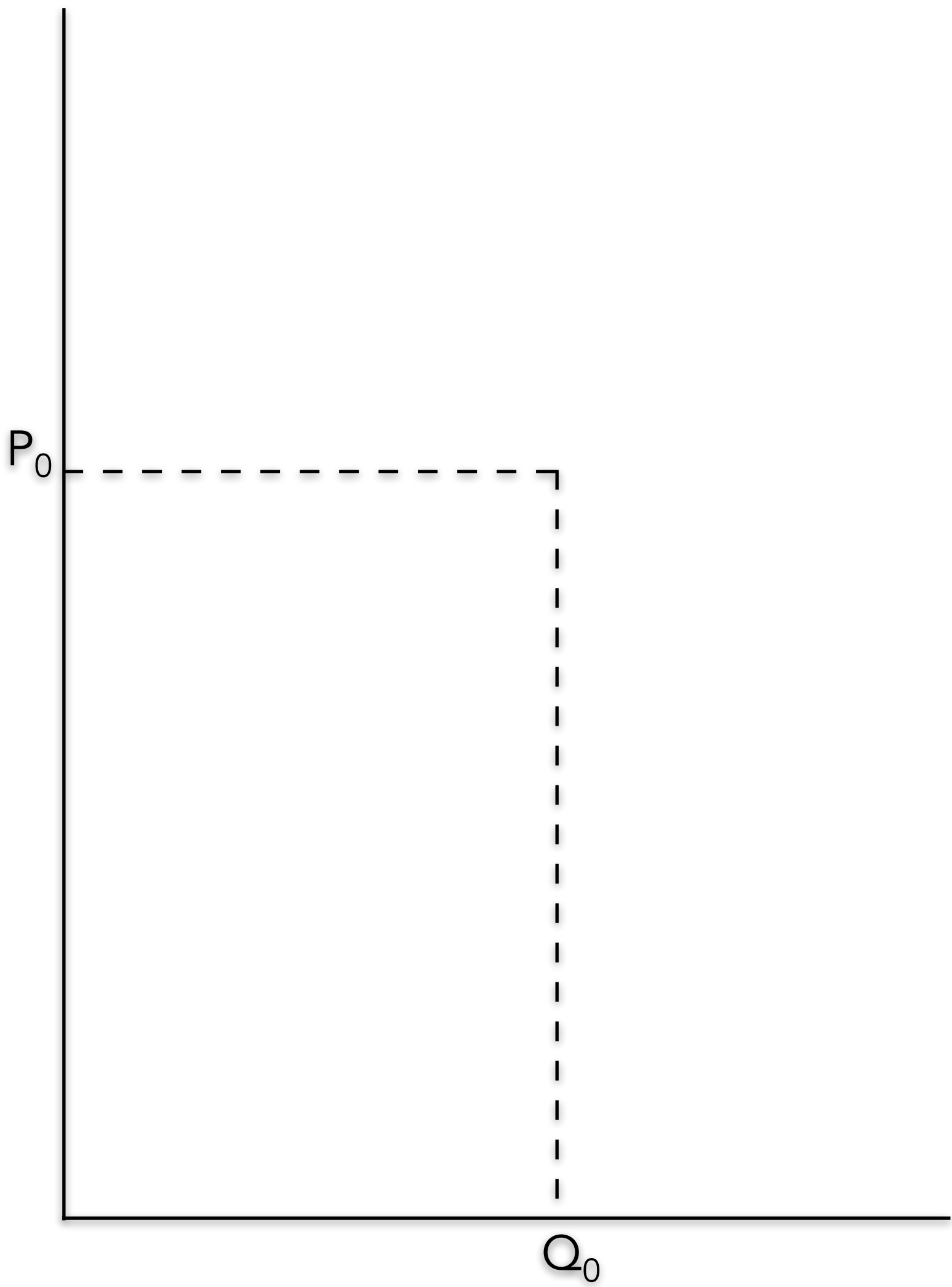




The  
Oligopolist  
price is  $P_0$



Do











9

















S









2



























U



S















U















mm

2

























W









**M**

**R**

[REDACTED]

[REDACTED]

M

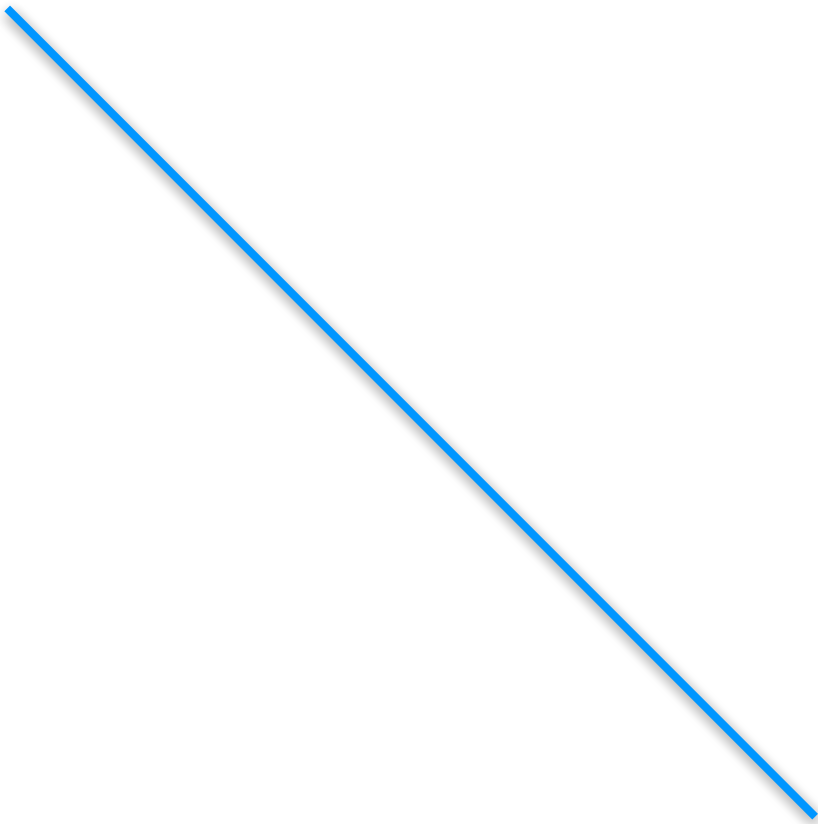


# Price and Output Determination in the Kinked Demand Model of Oligopoly

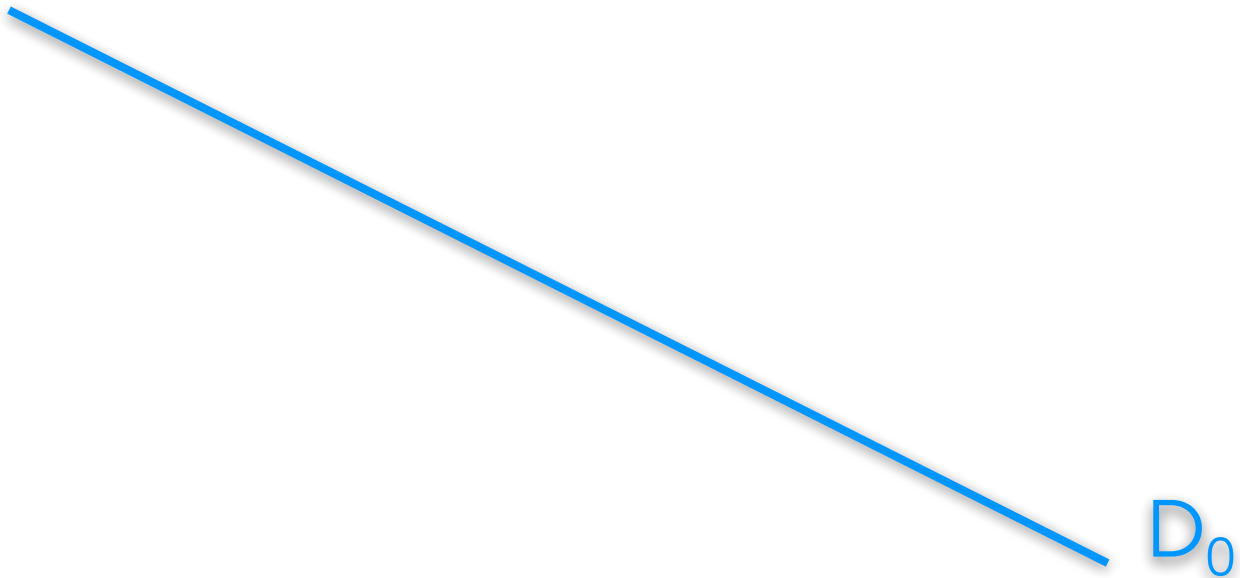




$MR_1$




MR<sub>0</sub>






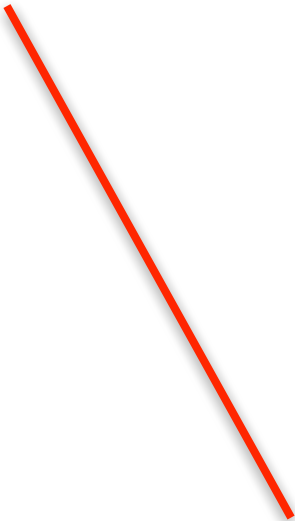
$MR_0$



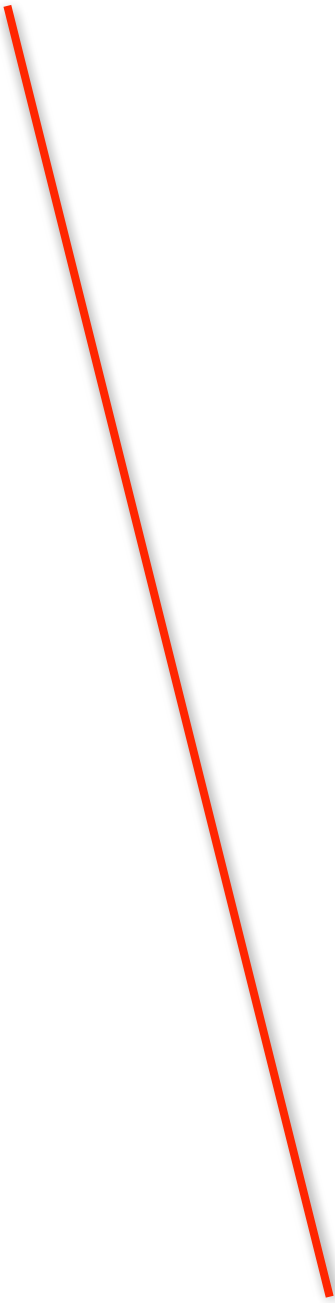
**Above** the  
current price,  
demand is  
**more** elastic




But this demand  
only applies to  
prices **above** the  
current price







A pink speech bubble with a white drop shadow, containing text about demand elasticity.

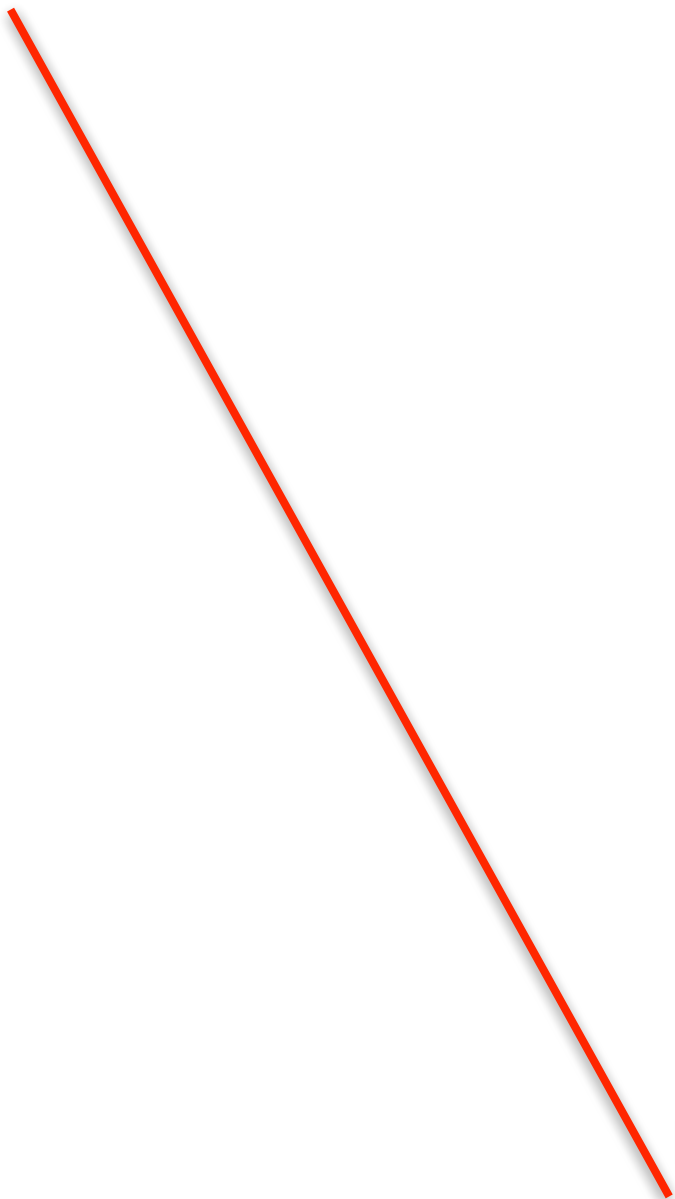
**Below** the  
current price,  
demand is **less**  
elastic



But this demand  
only applies to  
prices **below** the  
current price

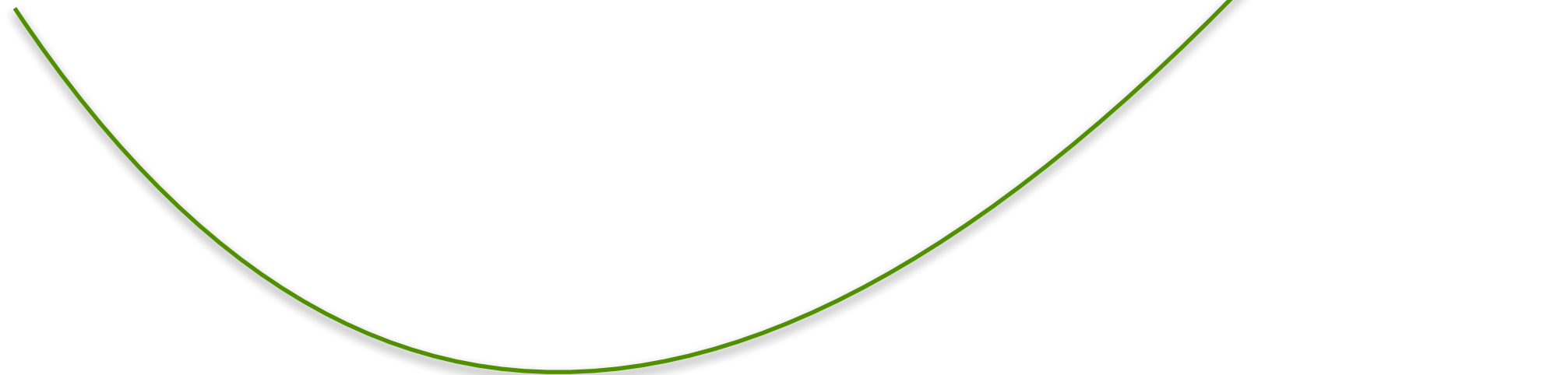


Results in a "gap"  
in the Marginal  
Revenue



$D_1$

$MC_0$



MC

=

MR



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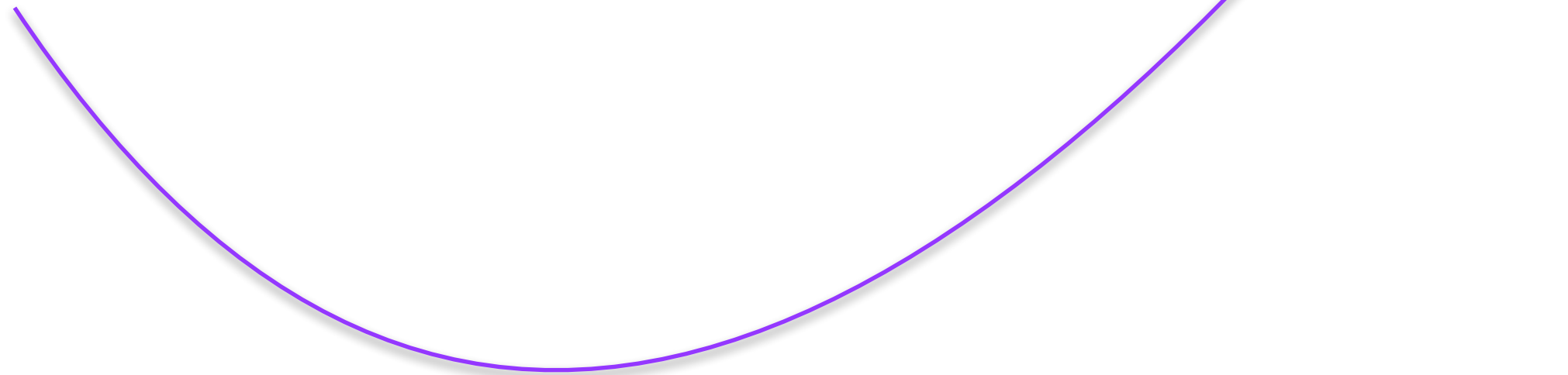
—

—





$MC_1$



MC

=

MR



—

—

—

—

—

—

—

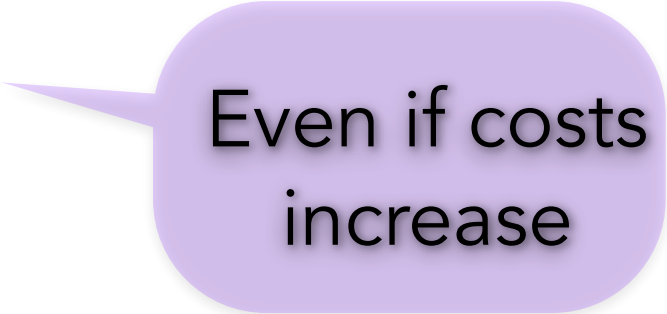
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Even if costs  
increase



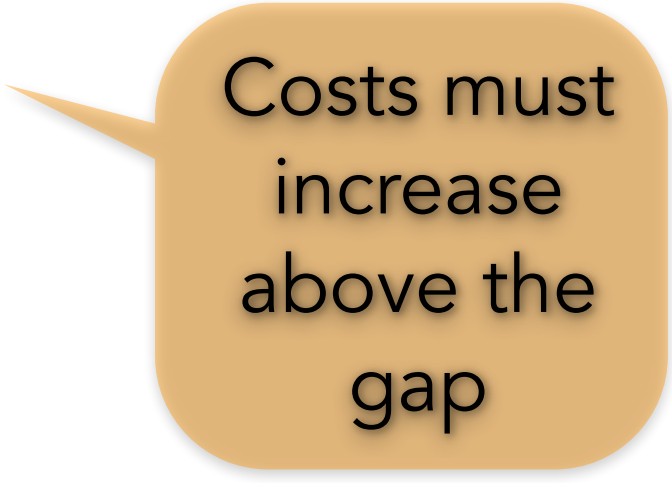
The  
Oligopolist  
price is still  
 $P_0$

D

MR



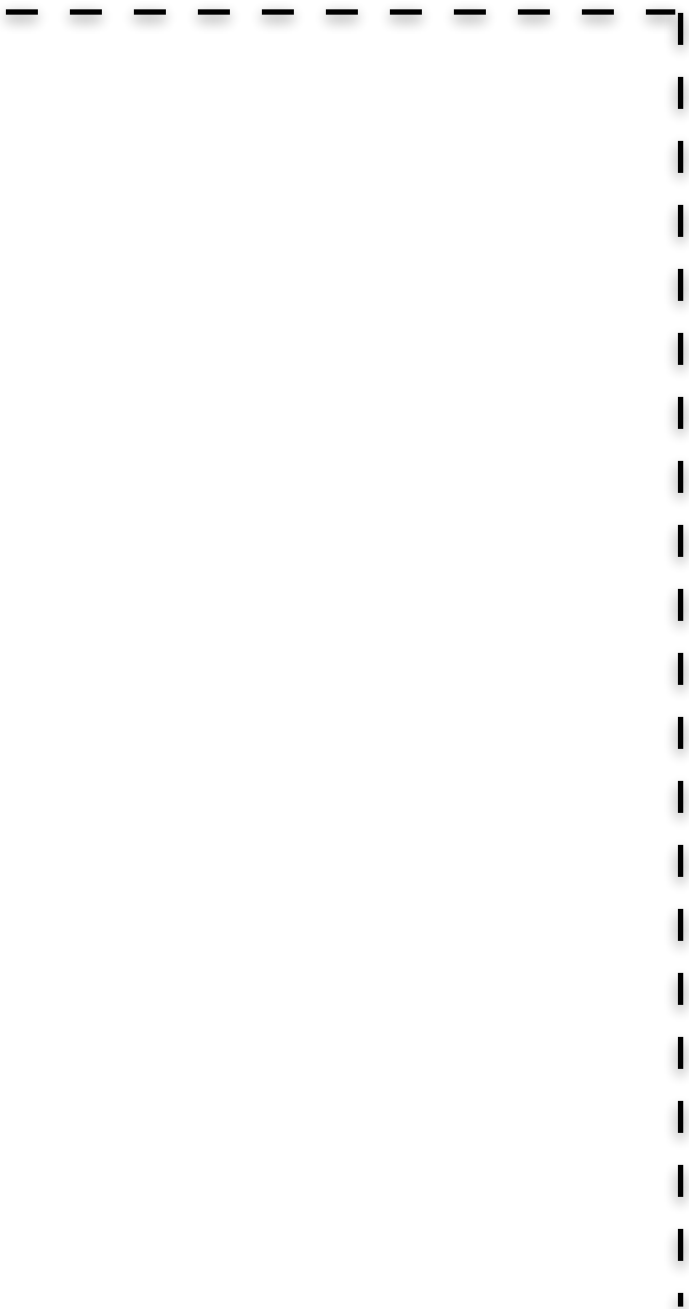
A Demand line  
with a "kink" at  
the current price

An orange speech bubble with a pointed tail on the left side, containing the text "Costs must increase above the gap".


Costs must  
increase  
above the  
gap



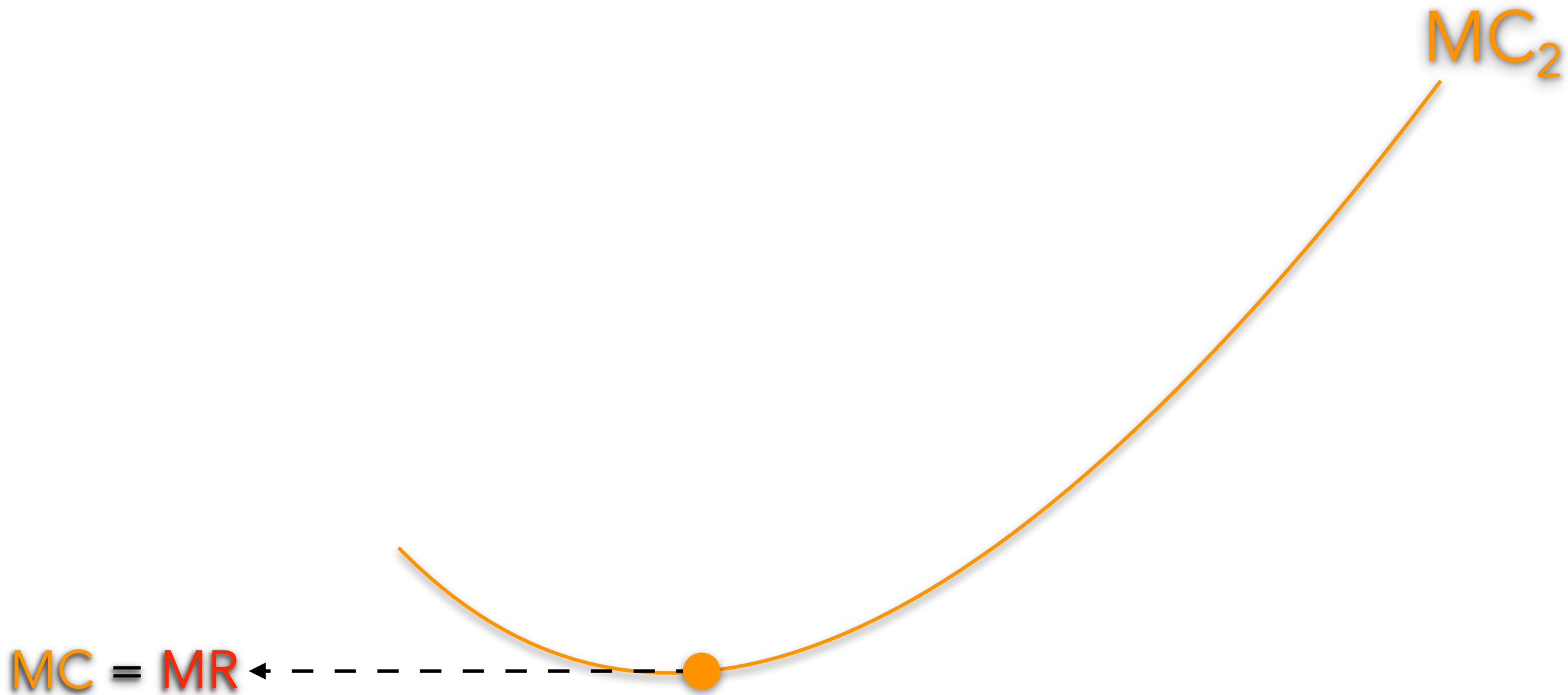
$P_2$



$Q_2$

An orange speech bubble with a white drop shadow, pointing towards the bottom right corner of the frame. The text is centered within the bubble.

For the  
oligopolist  
to increase  
the price





W



















2







S

W



**V**













S











U







S

S

U















b

**V**









9









S



S







2



g





S



S







o

**b**

Y

2



2



9



m



U

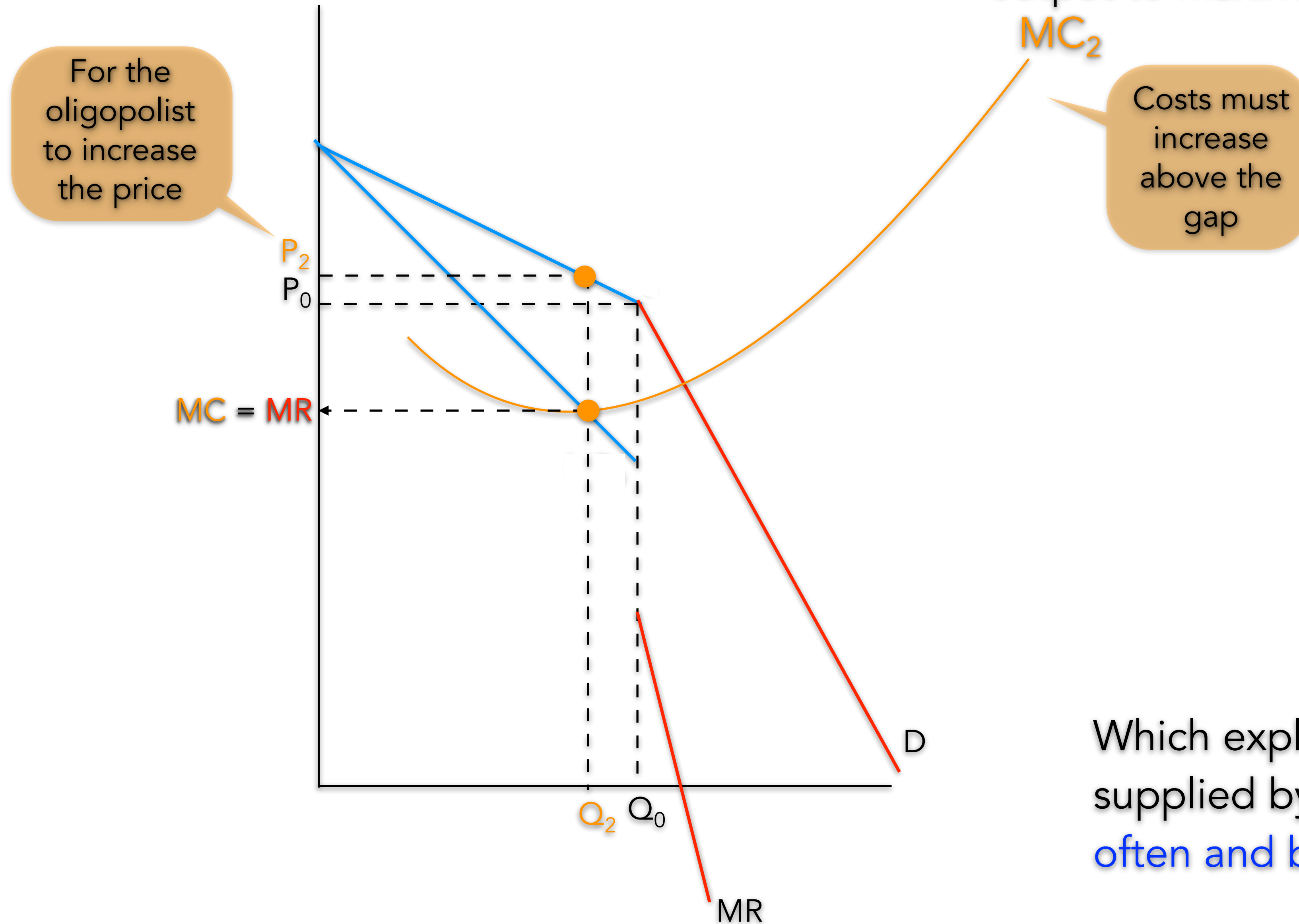




Oligopolists like all other producers choose output to maximize profit where  $MR = MC$

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

Oligopolists like all other producers choose output to maximize profit where  $MR = MC$



Which explains why **prices** of products supplied by **oligopolists** change **less often** and by a **large amount**

# Types of Costs