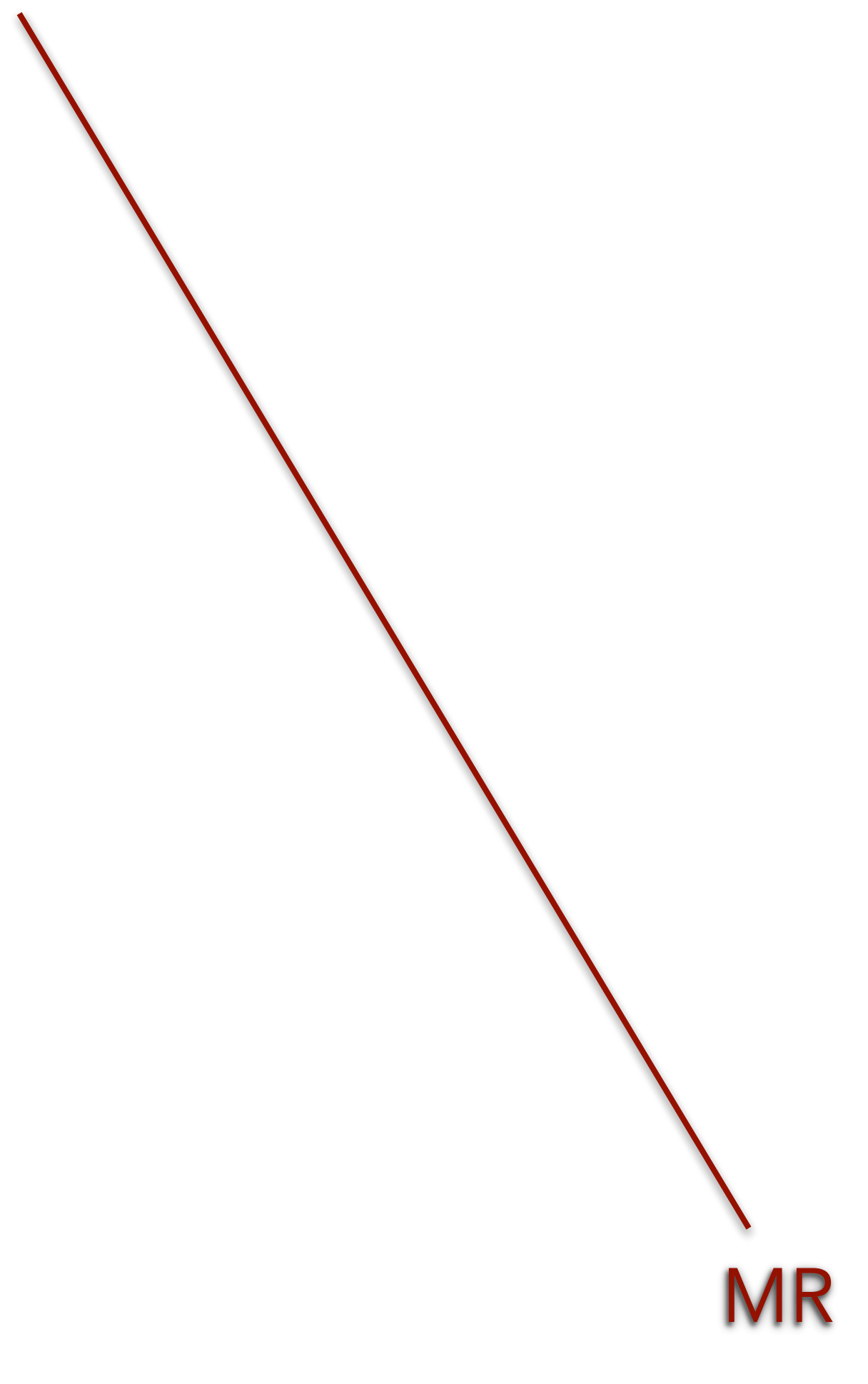
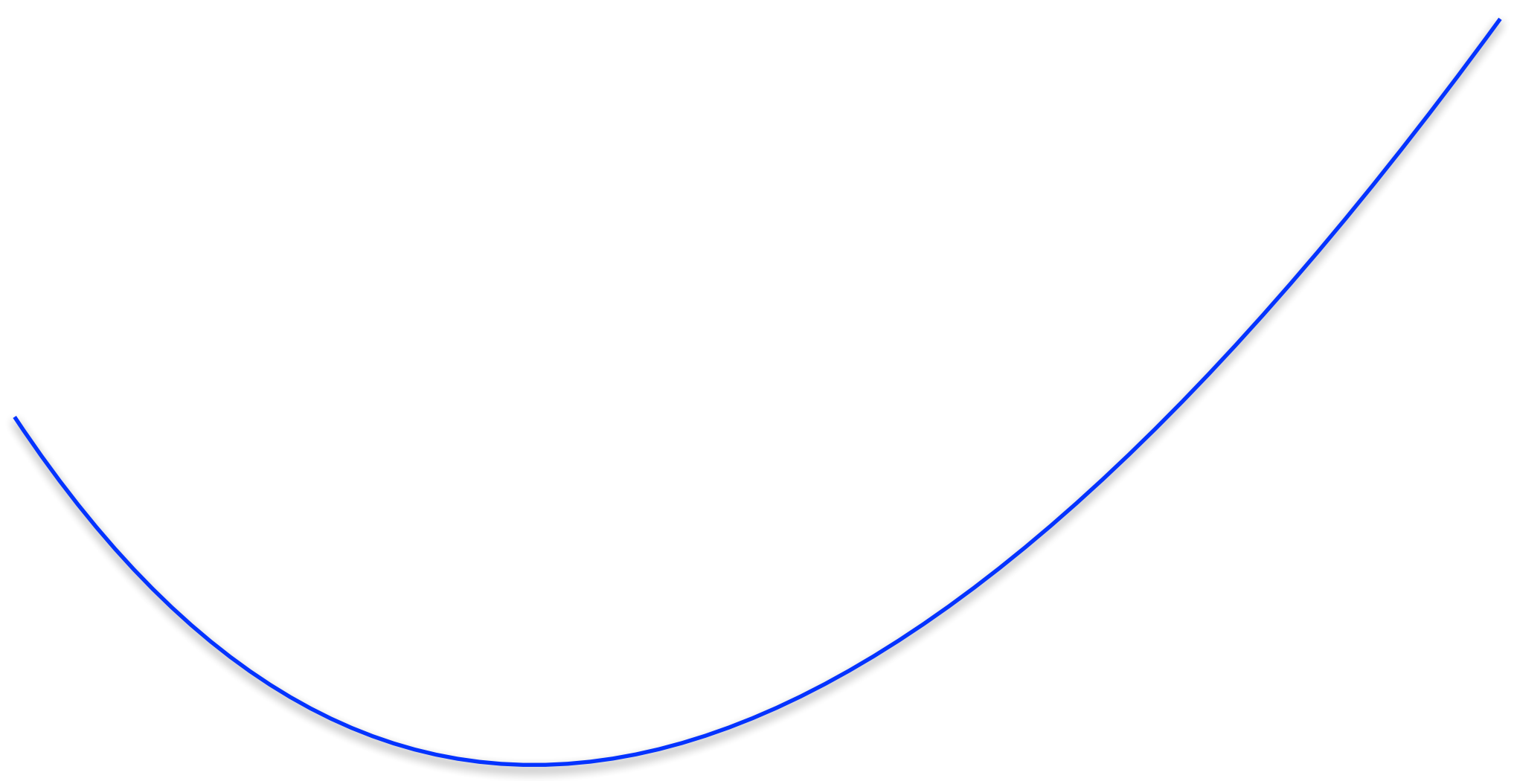




MC



MR

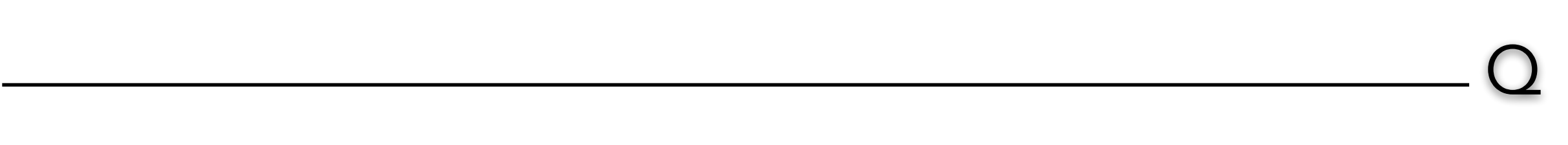


MC



MC

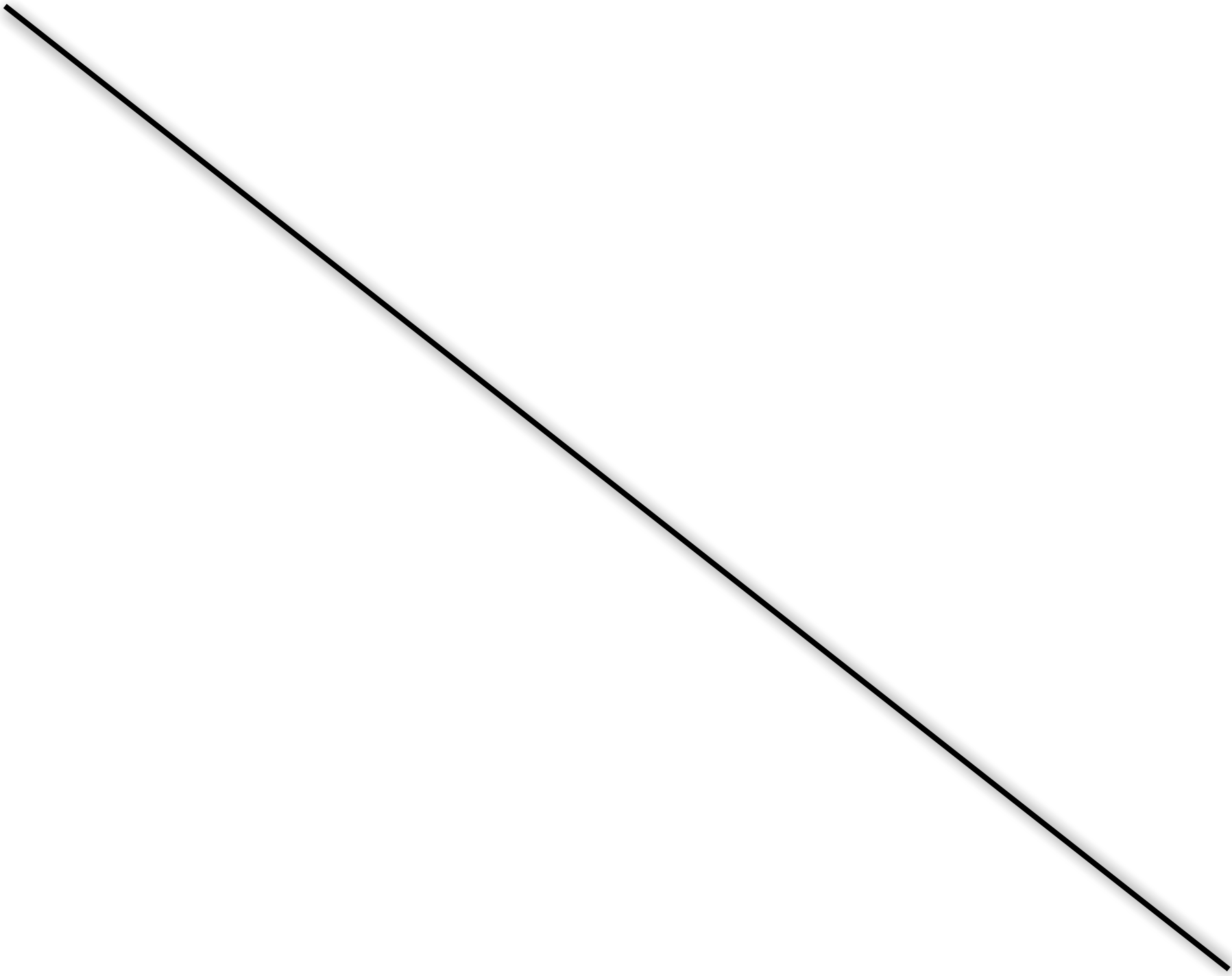
/P







To Maximize  
Profit, the Cartel  
must produce  $Q_0$



**D**

MC

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MR



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$P_0$





If the quantity that reaches the market is  $Q_0$ , each member gets this price per unit sold:  $P_0$

**P**























U





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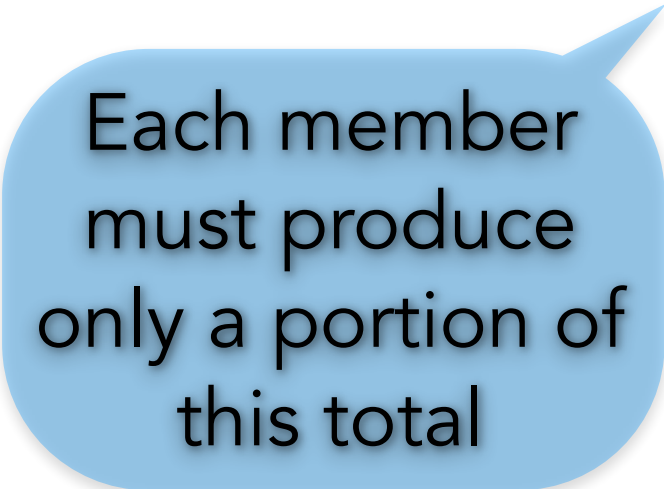








**/MR**



Each member  
must produce  
only a portion of  
this total

If any member produces  
**more** than its allotted  
quota, the quantity  
reaching the market would  
be higher than  $Q_0$



$P_1$











...and the price for  
ALL members will  
be lower than  $P_0$





OPEC does not  
have an effective  
enforcement  
mechanism except  
for occasional  
price wars...



Drug Cartels use  
violence as a very  
effective  
enforcement  
mechanism

# Price and Output Determination for a Cartel

# Price and Output Determination for the a Cartel

OPEC does not have an effective enforcement mechanism except for occasional price wars...

If the quantity that reaches the market is  $Q_0$ , each member gets this price per unit sold:  $P_0$

...and the price for ALL members will be **lower** than  $P_0$

Drug Cartels use violence as a very effective enforcement mechanism

