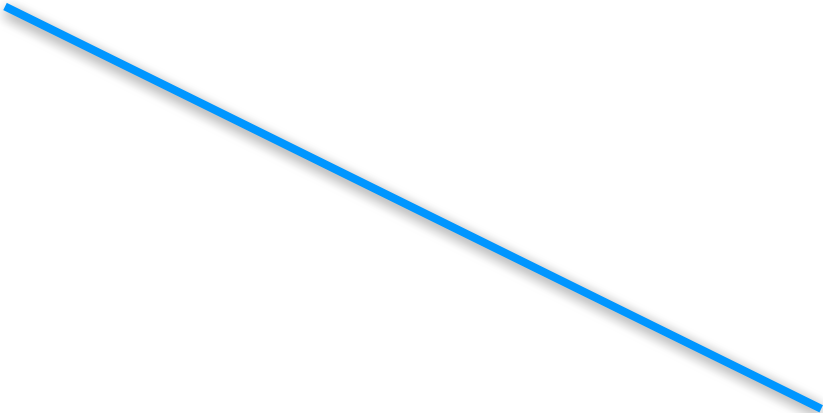
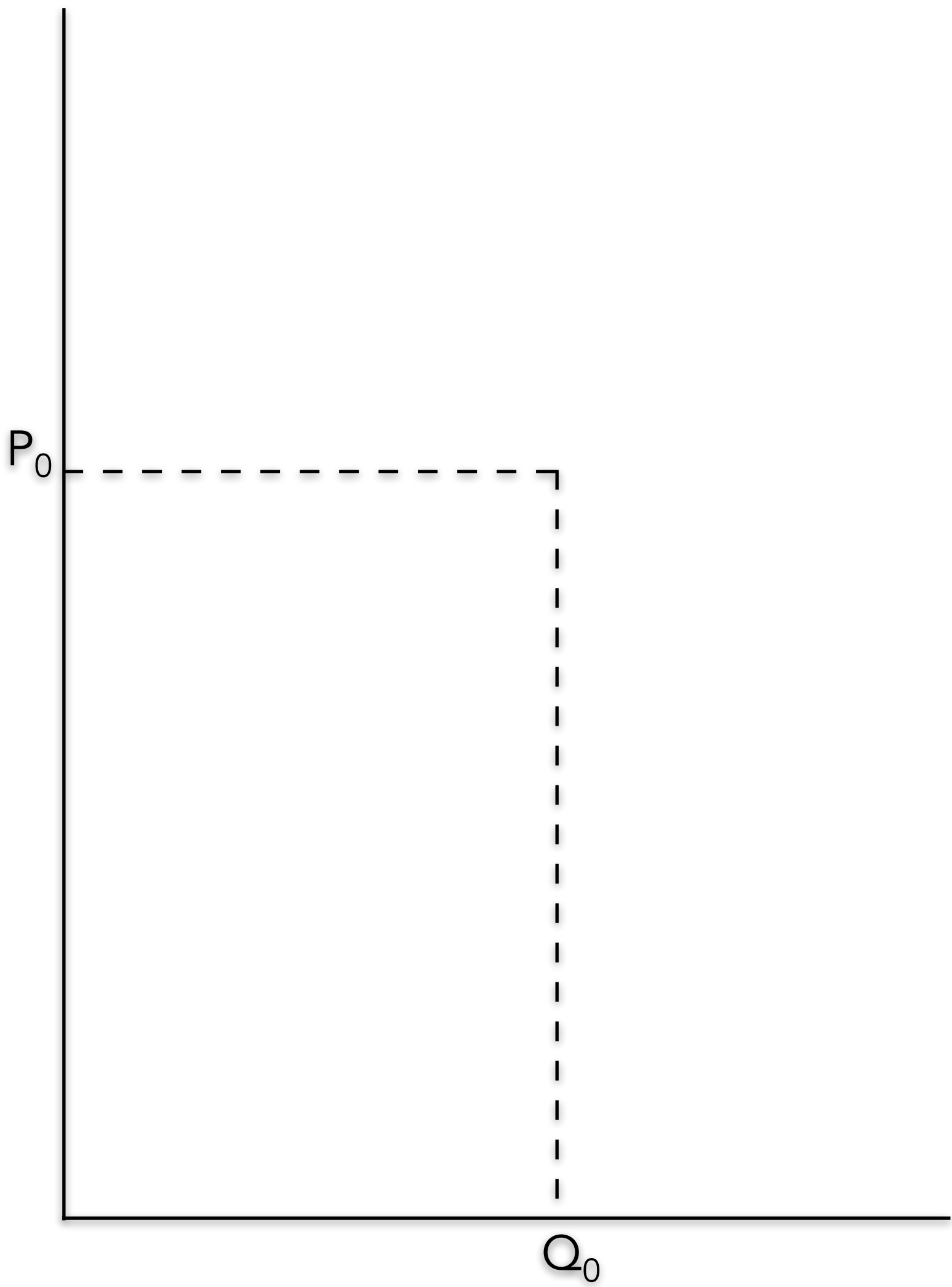


The
Oligopolist
price is P_0



Do









9















S









2























U



S













U













mm

2























W







M

R

[REDACTED]

[REDACTED]

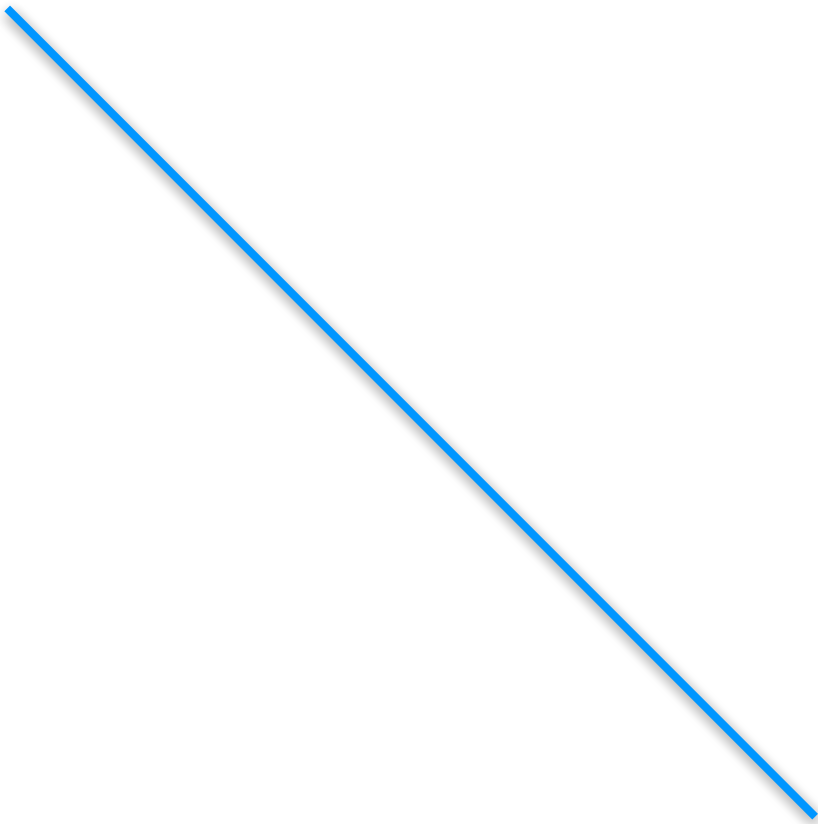
M



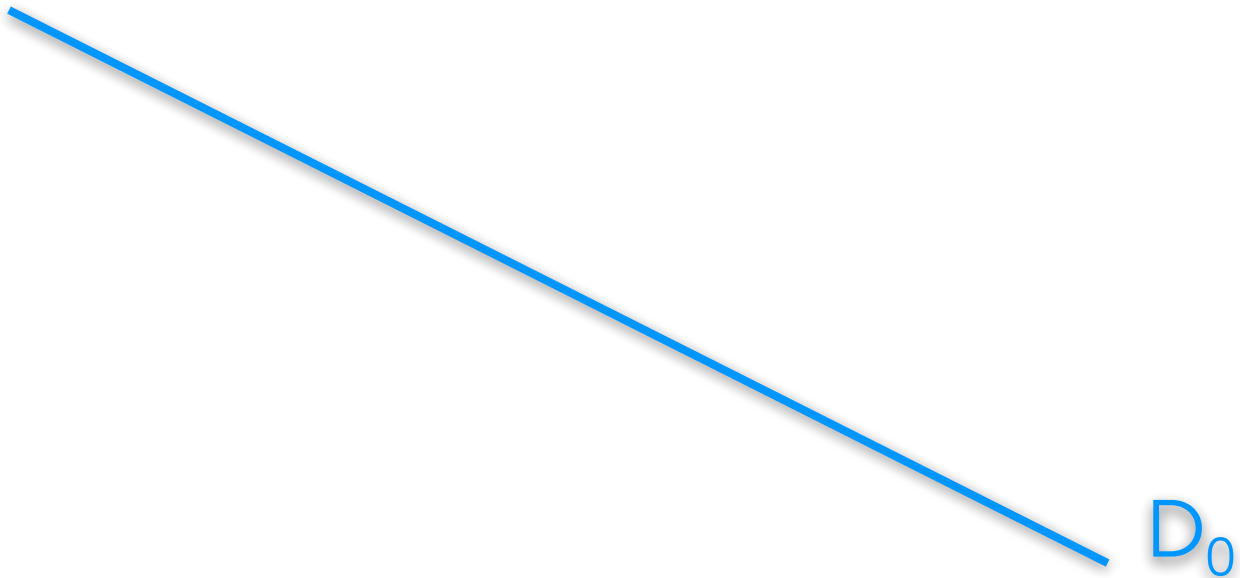
Price and Output Determination in the Kinked Demand Model of Oligopoly



MR_1

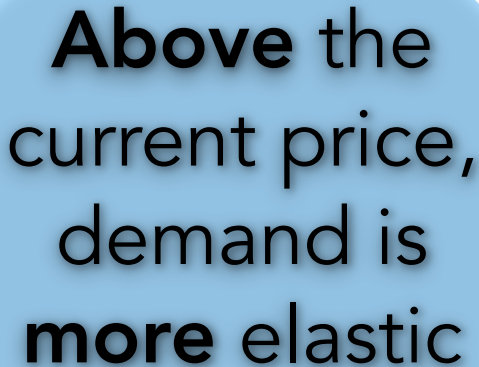


MR₀






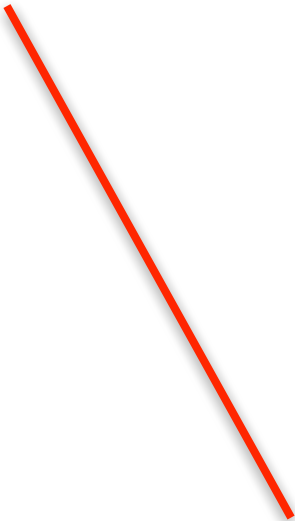
MR_0

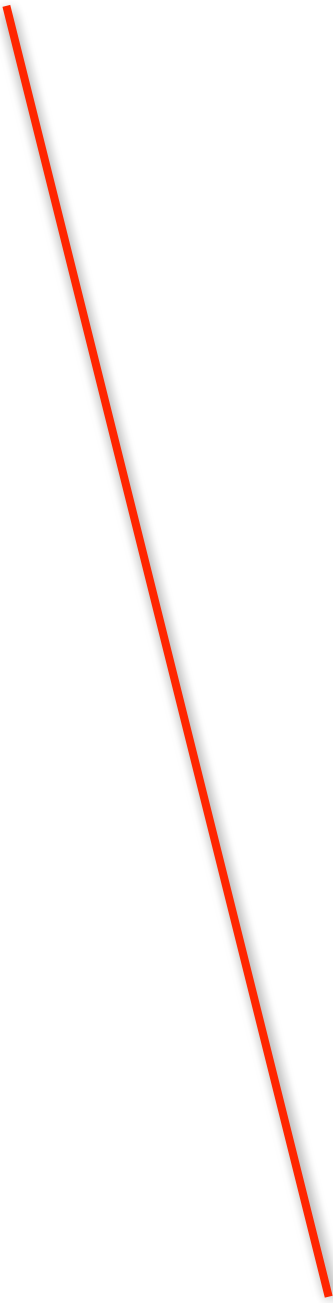



Above the
current price,
demand is
more elastic



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.

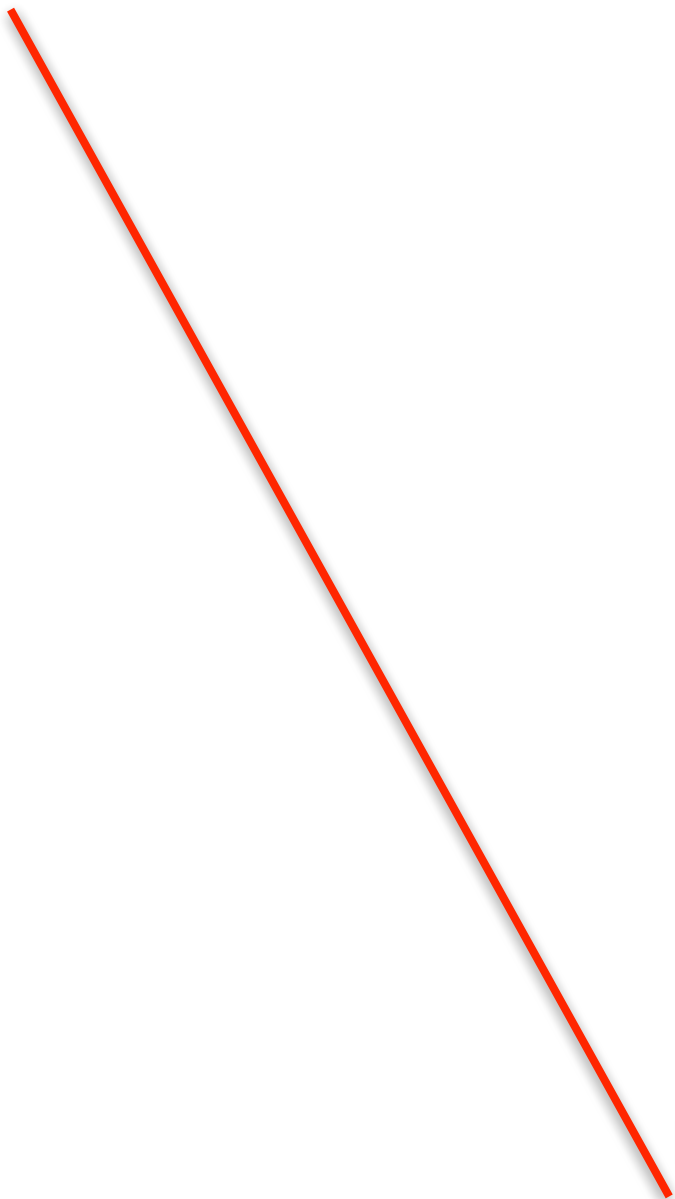
Below the
current price,
demand is **less**
elastic



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

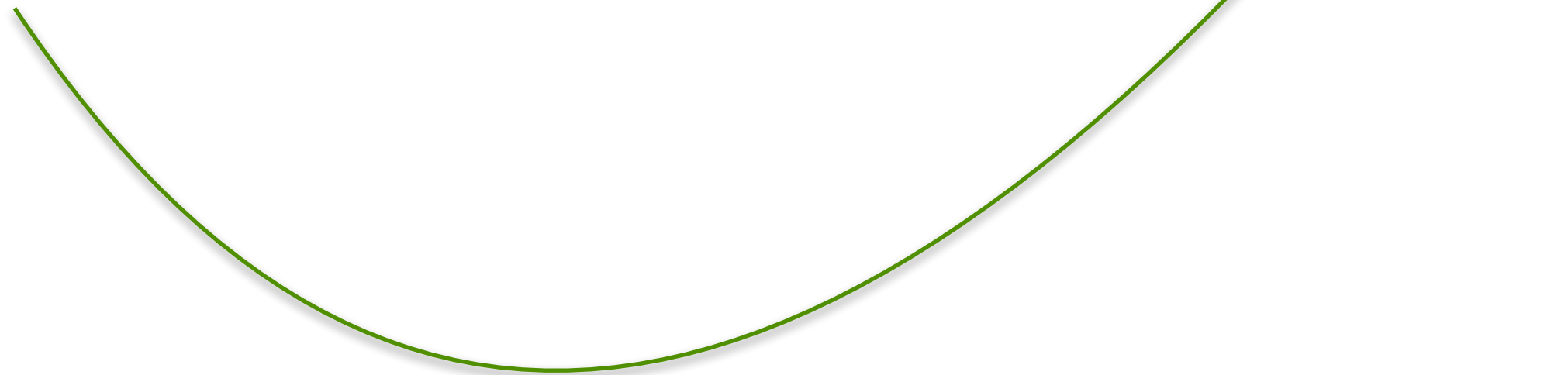


Results in a "gap"
in the Marginal
Revenue



D_1

MC_0



MC

=

MR



—

—

—

—

—

—

—

—

—

—

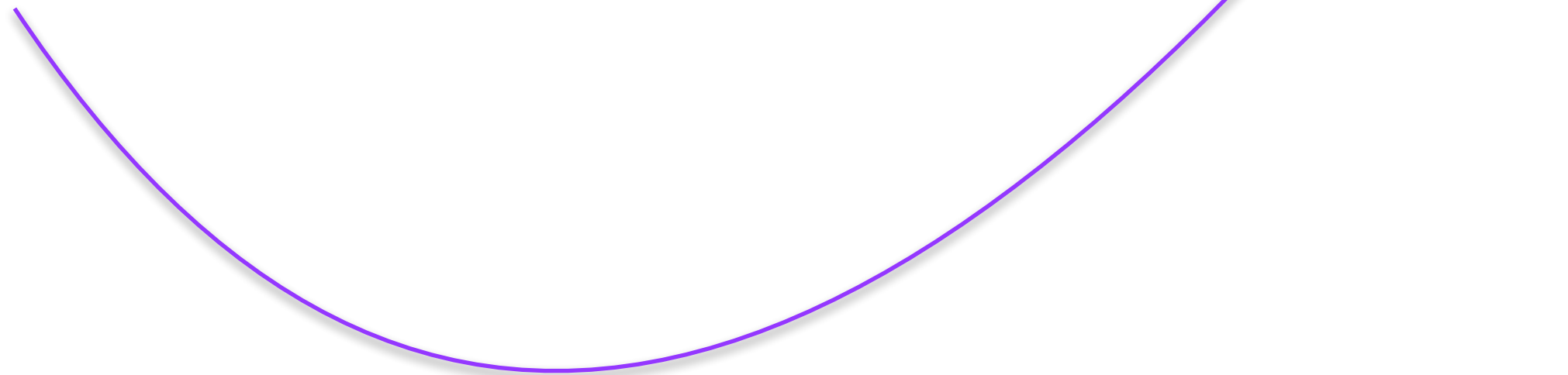
—

—

—



MC_1



MC

=

MR



—

—

—

—

—

—

—

—

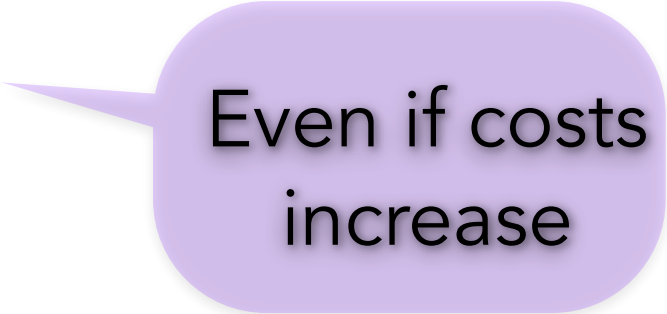
—

—

—

—

—



Even if costs
increase



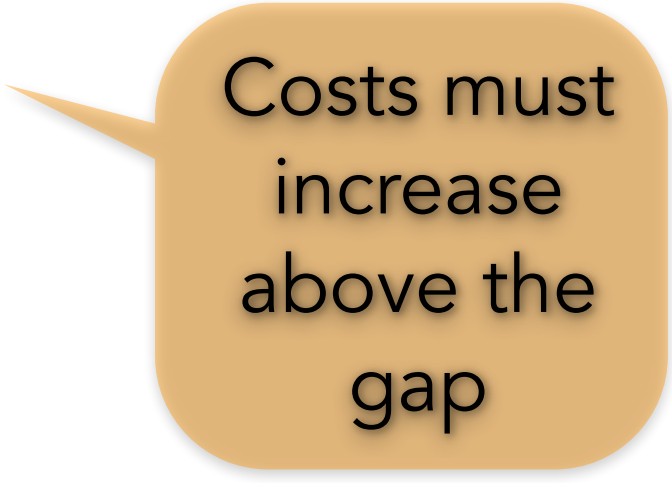
The
Oligopolist
price is still
 P_0

D

MR

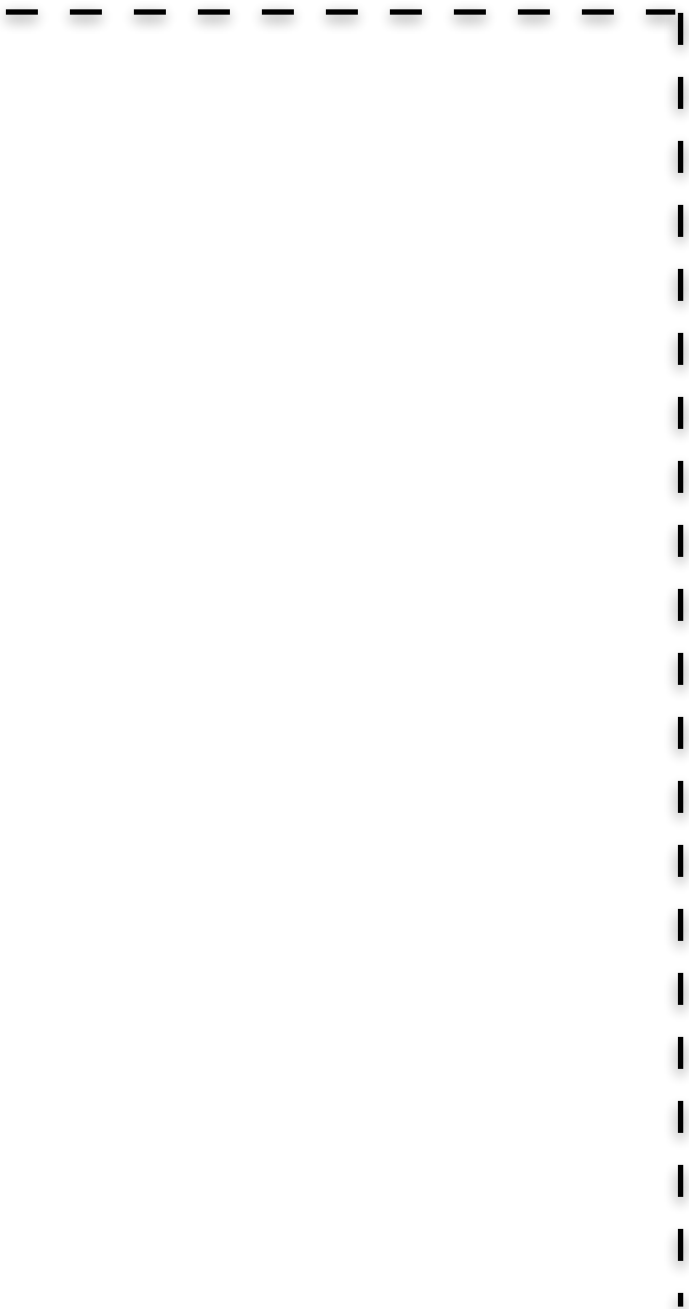


A Demand line
with a "kink" at
the current price


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

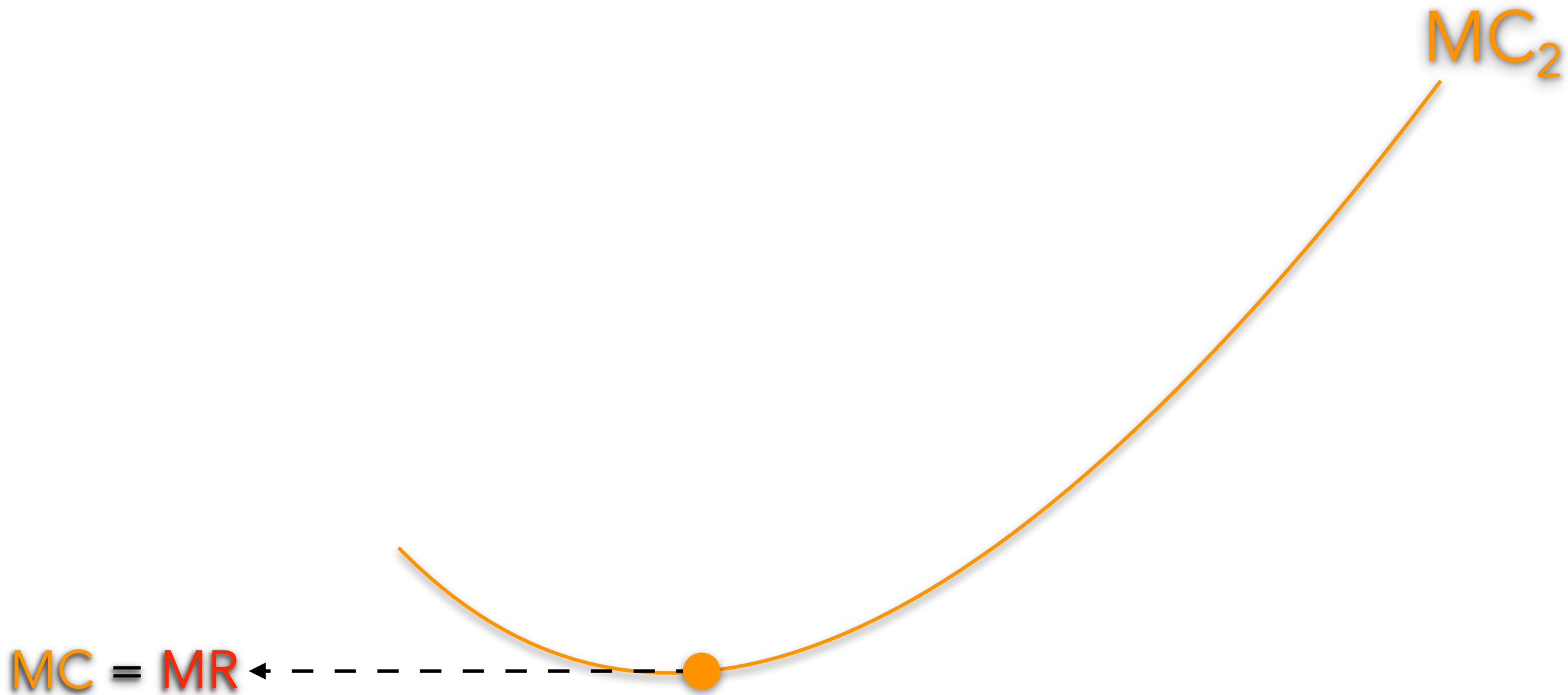
P_2



Q_2

An orange speech bubble with a white drop shadow, pointing towards the bottom right. It contains the text "For the oligopolist to increase the price".

For the
oligopolist
to increase
the price





W

















2





S

W



V











S











U





S

S

U















V







g









S



S





2



g





S

S







o

b

Y

2

2



9



m



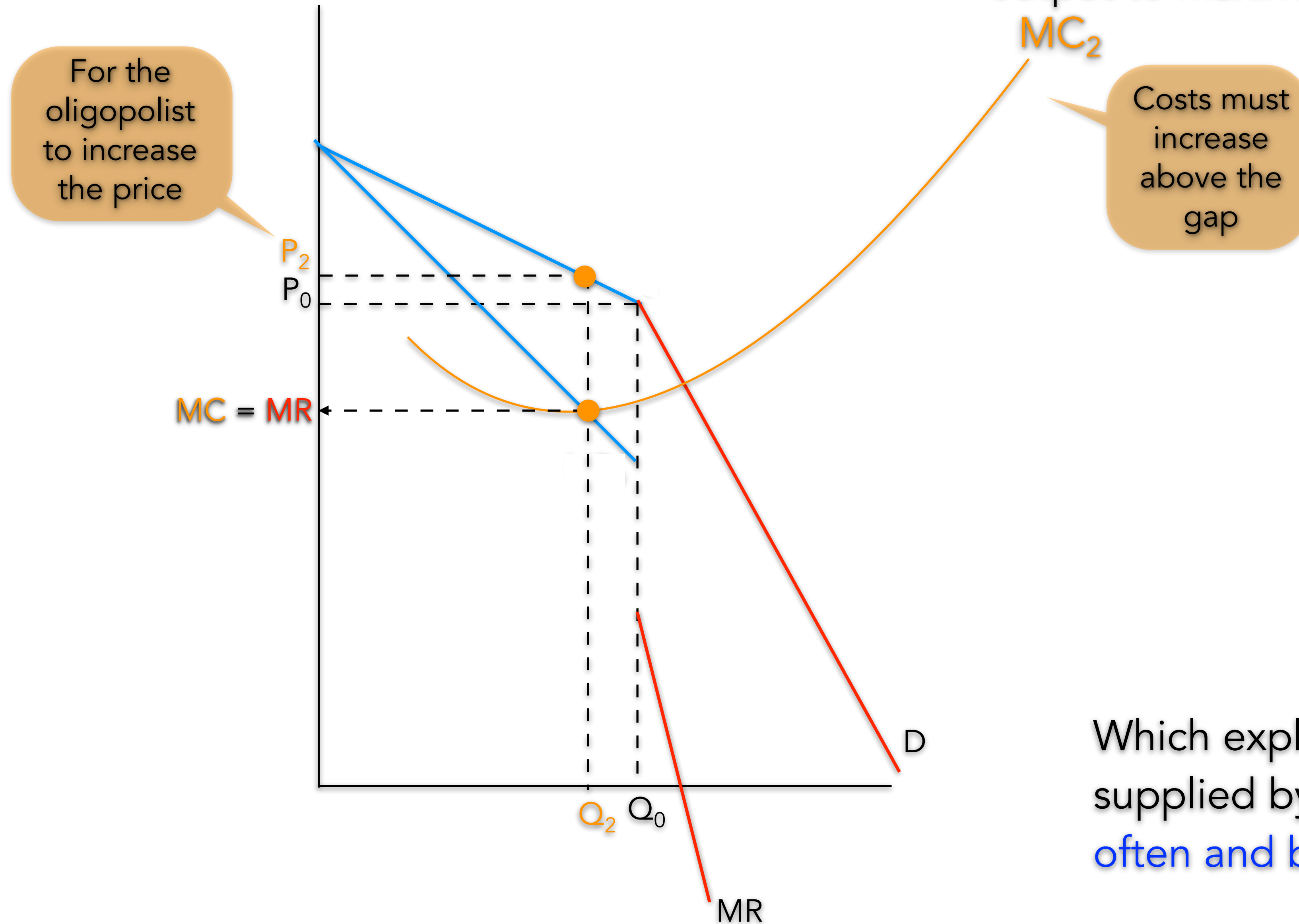
U



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