

The Cartel (Collusion) Model

◆ A cartel is a combination of firms which "Collude" (agree to act as a single firm).

- ◆ The oligopoly sets price and quantity as if they were a single firm (a monopoly): all firms must charge the same price and each firm must produce only a portion (quota) of the total amount produced.

◆ Collusion is illegal in the U.S. (Antitrust laws prohibit price fixing)

◆ If the cartel can limit the entry of other firms, they can increase their profits.





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Examples of Cartels: OPEC, drug cartels