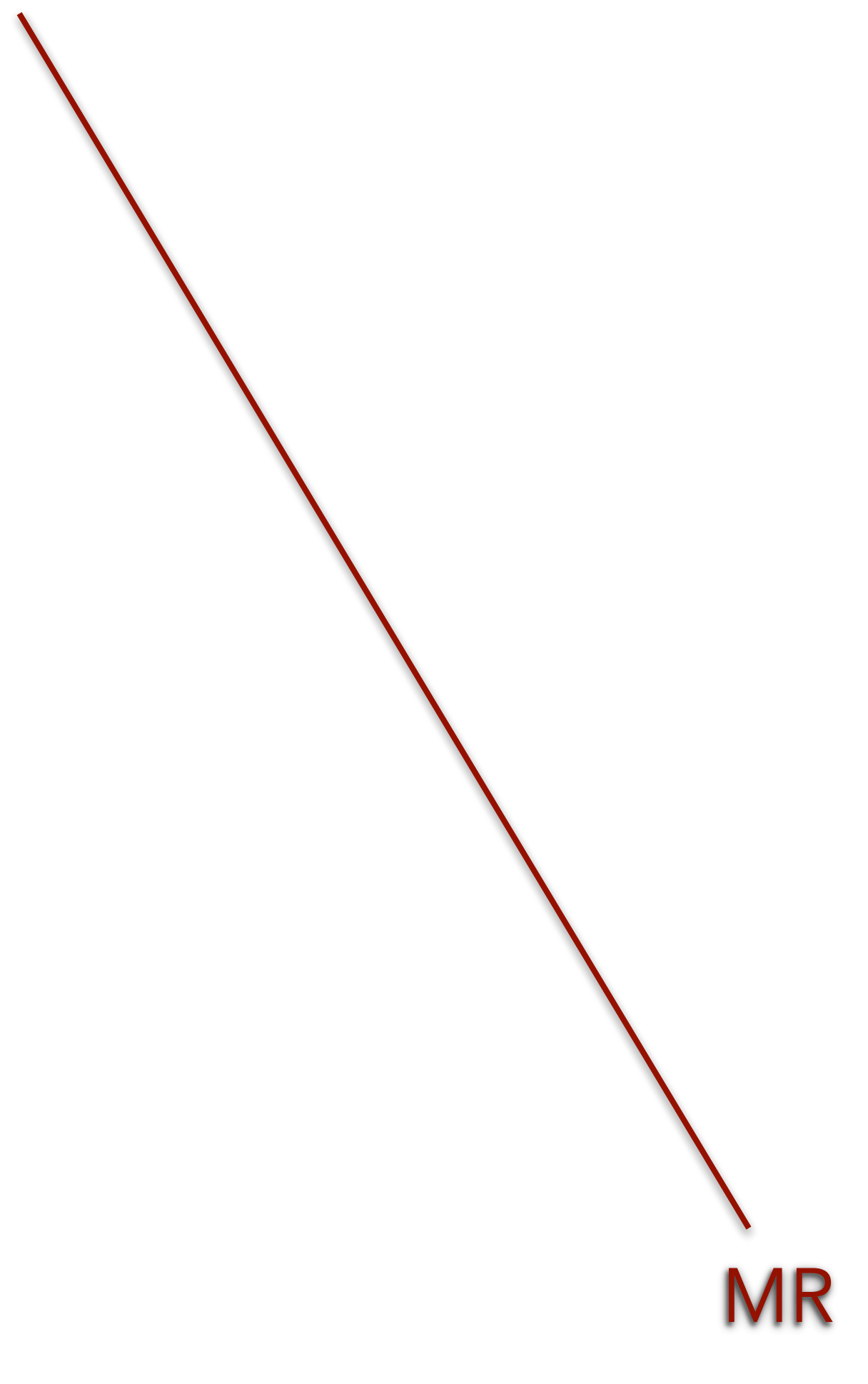
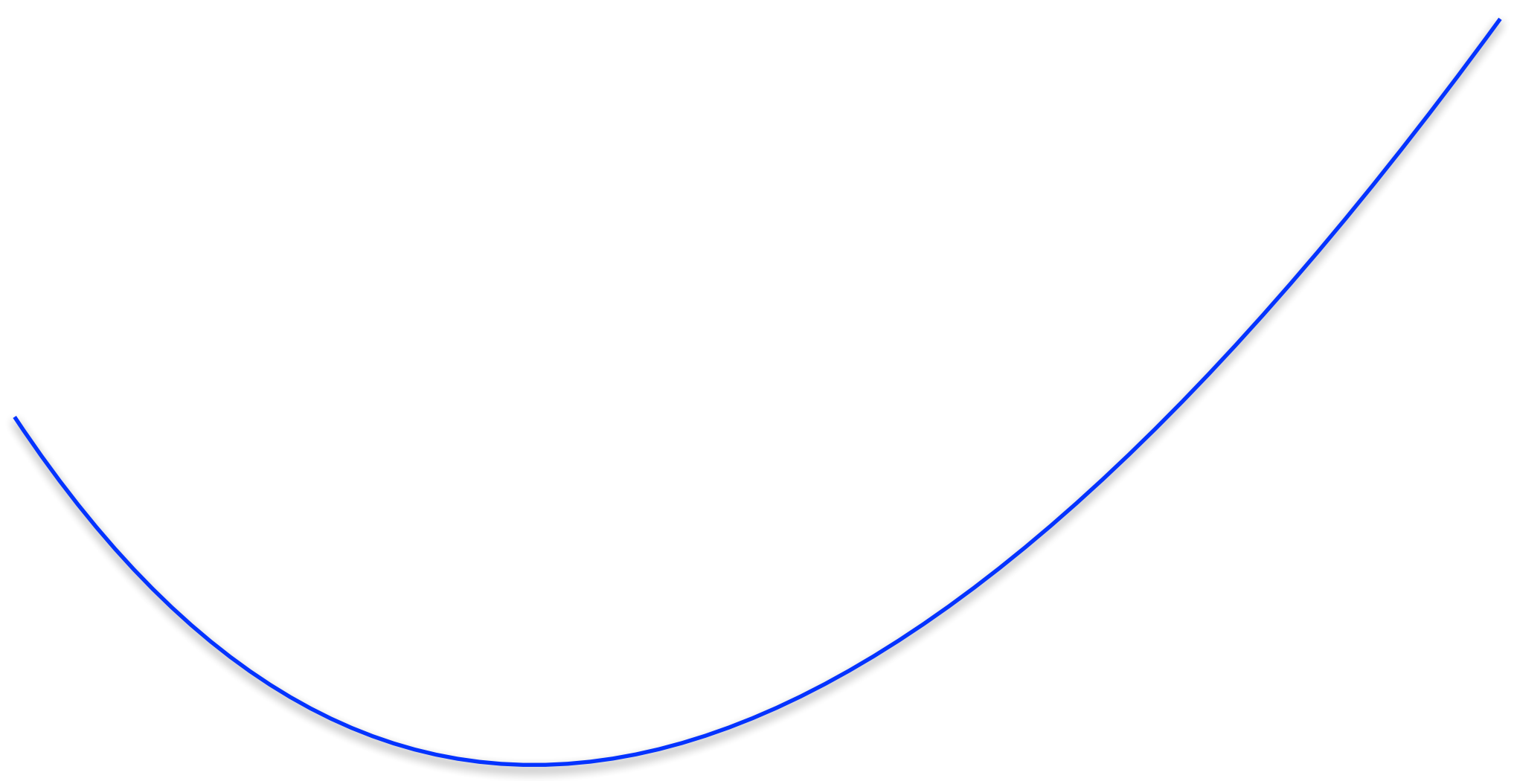


MC



MR

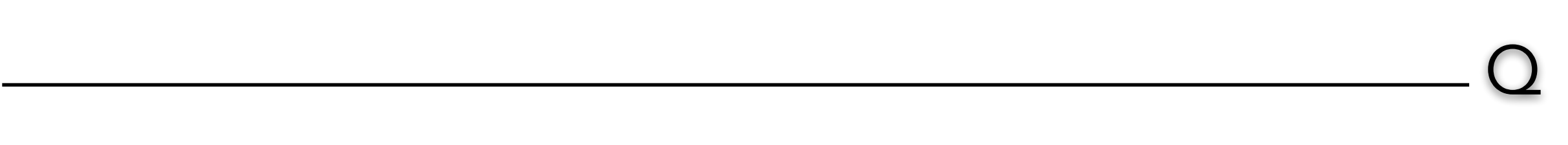


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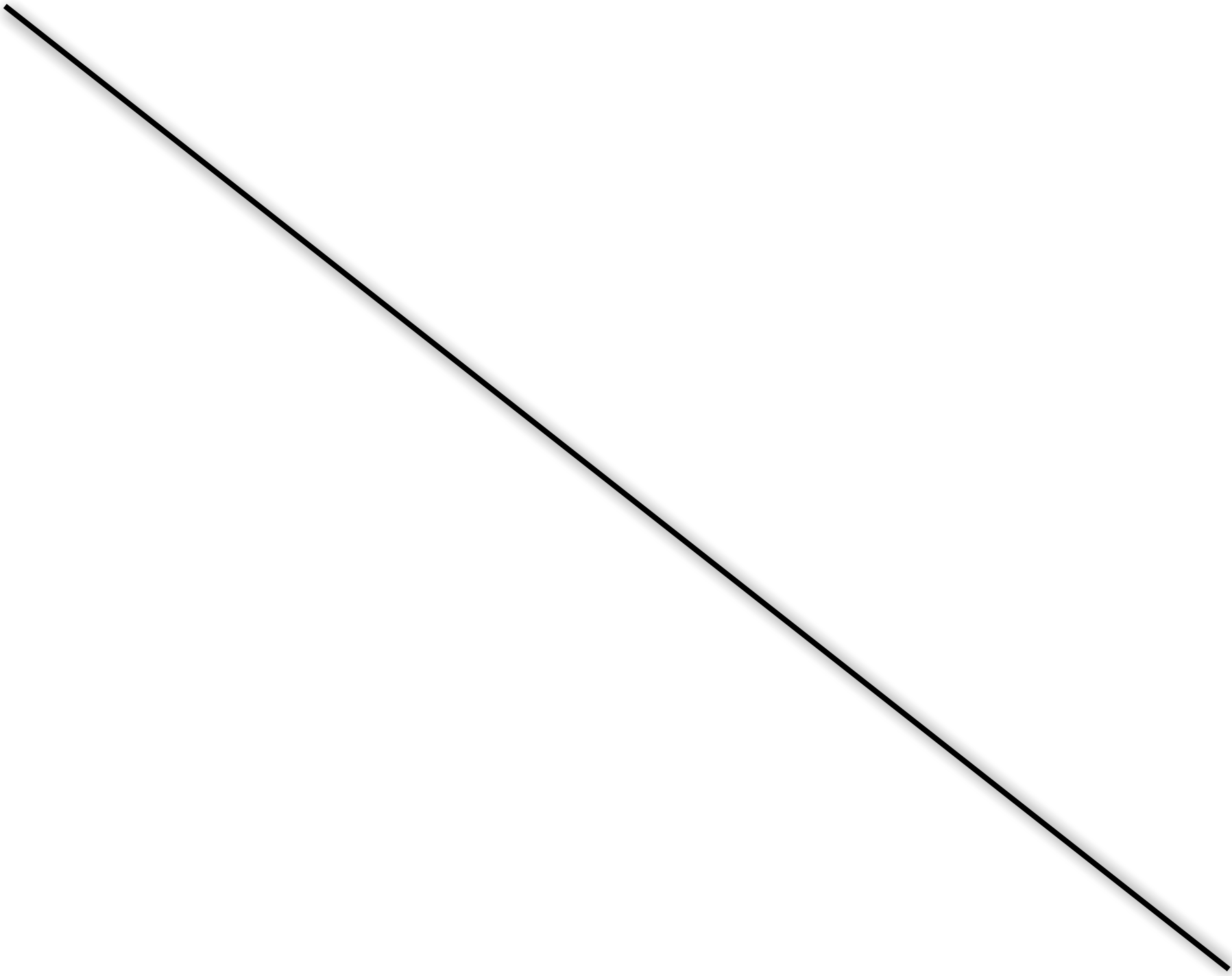
MC

/P





The Dominant Firm
choose its output Q_0 to
maximize its own profits





MC

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MR



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P_0





To sell Q_0 units, the
firm sets the
industry price equal
to P_0



























































P

























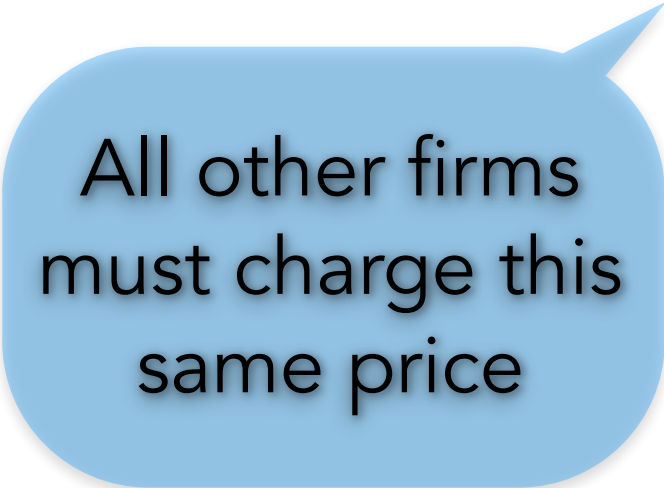




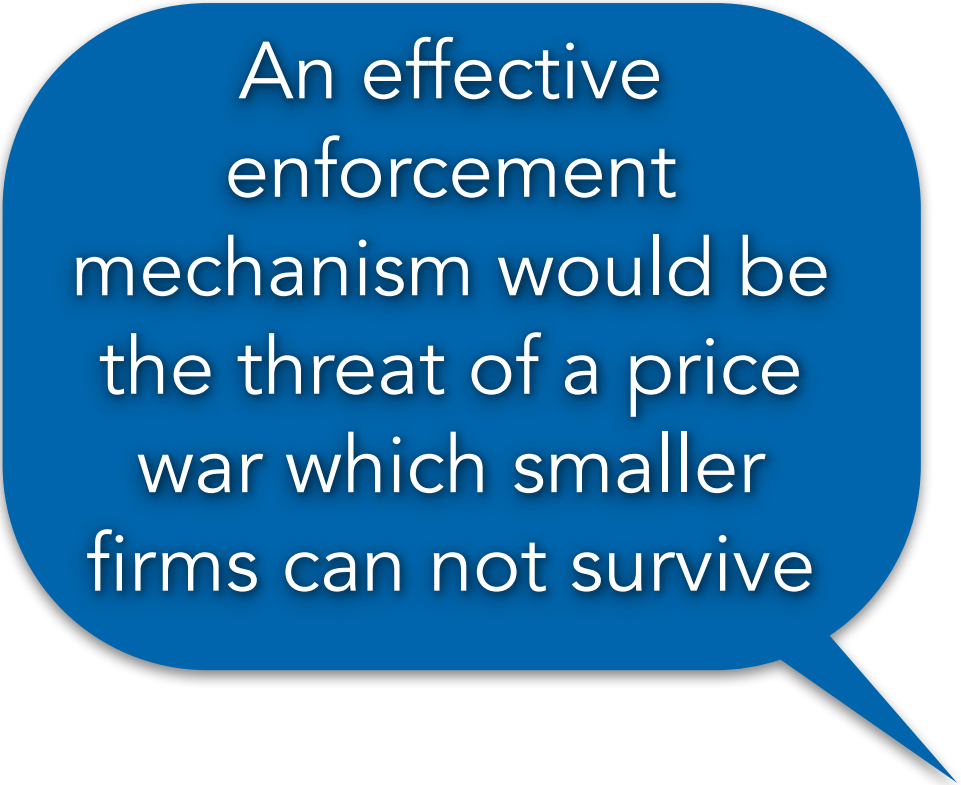




/MR



All other firms
must charge this
same price



An effective
enforcement
mechanism would be
the threat of a price
war which smaller
firms can not survive

Price and Output Determination in Price Leadership

Price and Output Determination in Price Leadership

An effective enforcement mechanism would be the threat of a price war which smaller firms can not survive

To sell Q_0 units, the firm sets the industry price equal to P_0

All other firms must charge this same price

