Discussion: Deteriorating Market Conditions and Cartel Formation under Manager Loss Aversion by Douglas Turner

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October 24, 2025

Summary

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- **The Contribution**:To explain this, this paper introduces "loss-averse" managers (via prospect theory) into a dynamic collusion game. A market shock creates a new, lower competitive profit, perceived as a **painful loss** relative to the manager's old (higher) reference point.
- Collusion becomes an attractive way to **avoid this loss**. This fear of loss can overpower the standard effect, making cartels **easier** to form and sustain.

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- Example: a model with two firms, linear demand, MC=0, (two -period?)
  1. Show that the standard model fails: a shock (e.g., new entry) makes collusion unsustainable.
  2. Show the loss-aversion model works: the same shock, with loss-averse managers, **triggers** collusion.

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  This would demonstrate why the standard model can't explain the puzzle and how loss aversion is the key ingredient