

Imperfectly Competitive Markets

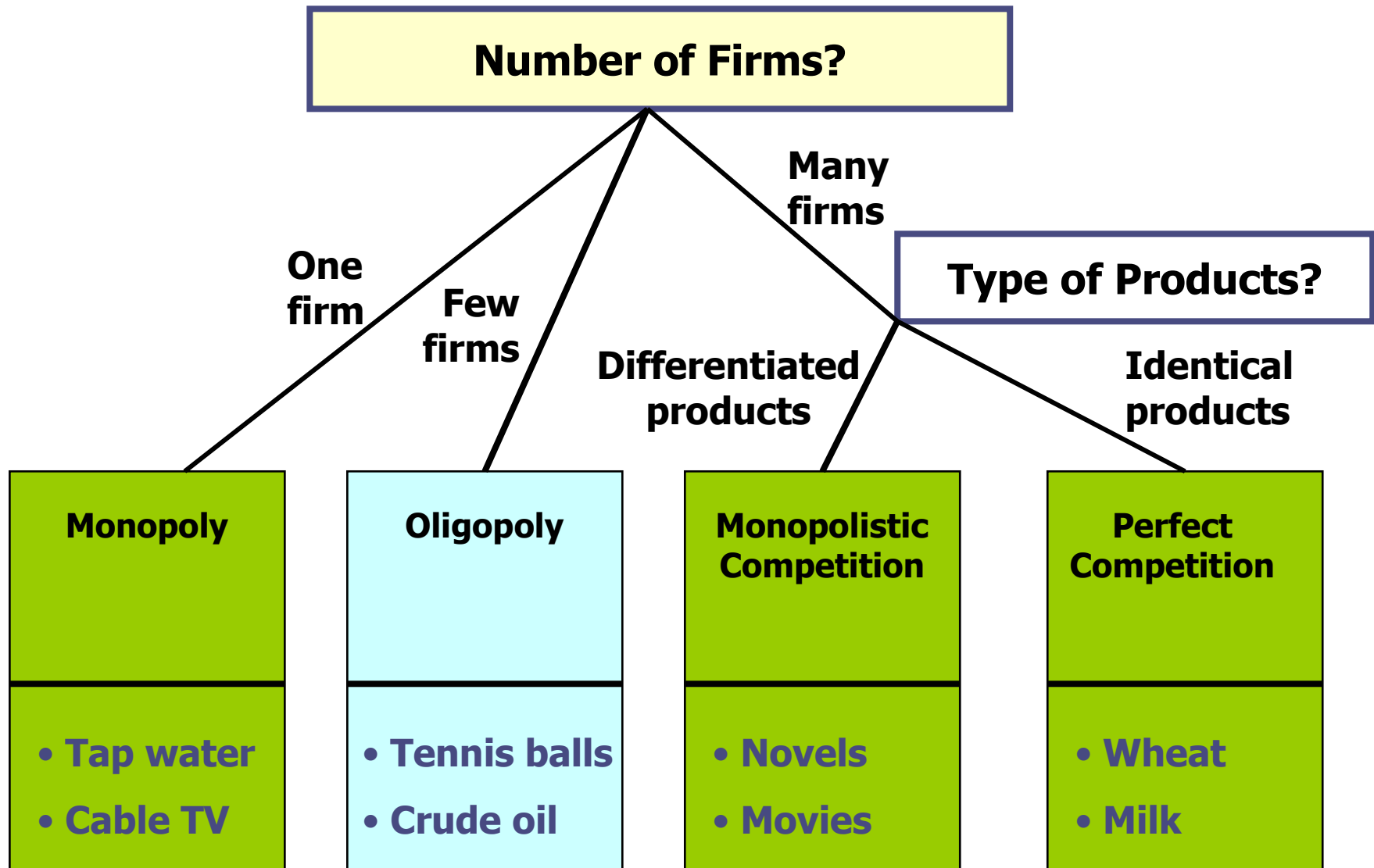
◆ Oligopoly

- ◆ Only a *few sellers*, each offering a similar or identical product to the others.

◆ Monopolistic Competition

- ◆ *Many firms* selling products that are similar but not identical.

Four Types of Market Structure



Characteristics of Oligopoly

- ◆ Few sellers offering similar or identical products
- ◆ Interdependent firms
- ◆ Best off cooperating and acting like a monopolist by producing a small quantity of output and charging a price above marginal cost

- ◆ Tendencies...
 - ◆ **Collusion**
 - ◆ The two firms may agree on the quantity to produce and the price to charge.
 - ◆ **Cartel**
 - ◆ The two firms may join together and act in unison.

Equilibrium for an Oligopoly

When firms in an oligopoly individually choose production to maximize profit, they produce quantity of output greater than the level produced by monopoly and less than the level produced by competition.

The oligopoly price is less than the monopoly price but greater than the competitive price (which equals marginal cost).

How the Size of an Oligopoly Affects the Market Outcome

- ◆ As the number of sellers in an oligopoly grows larger, an oligopolistic market looks more and more like a competitive market.
- ◆ The price approaches marginal cost, and the quantity produced approaches the socially efficient level.

Antitrust Policy

- ◆ Antitrust laws make it illegal to restrain trade or attempt to monopolize a market.
 - ◆ Sherman Antitrust Act of 1890
 - ◆ Clayton Act of 1914

- ◆ Antitrust policies sometimes may not allow business practices that have potentially positive effects:
 - ◆ Resale price maintenance
 - ◆ Predatory pricing
 - ◆ Tying

Common Oligopoly Practices

Resale price maintenance (or **fair trade**) occurs when suppliers (like wholesalers) require the retailers that they sell to, to charge customers a specific amount.

Predatory pricing occurs when a large firm begins to cut the price of its product(s) with the intent of driving its competitor(s) out of the market.

Tying refers to when a firm offers two (or more) of its products together at a single price, rather than separately.