Oligopoly

The word oligopoly deried from two Greek words :

Oligoi - few
Poly - control } → few sellers

Thus, It means few large sell either homogenous or differentiated products.

For example in India :-

- Automobiles → Tata, Maruti, M&M and Honda etc.
- Airlines → air India, Spicejet, Indigo, jet airway etc.

Features :

→ few sellers and many buyers

i). Number of firms can vary from 2 to 10
ii). All firms are interdependent
iii) The firms can influence the price and output by their actions

→ Homogeneous and differentiated product

Oligopoly

Pure oligopoly or perfect oligopoly ⇓ Homogenous goods are produced by it ⇒ steel industry and cement industry

Differentiated oligopoly or Imperfect Oligopoly ⇓ Differentiated goods are produced by it ⇒ automobiles industry and mobile industry

→ Mutual Inter-dependence

i). It means firms are affected by price and output decisions of each others.
ii). If one firm decrease the price it will reduced the demand for other firm, then other firm also reduce its price.
iii) If one firm increases it price other firm will not follow him.
iv). Cross elasticity of demand is very high due to presence of "close substitute".

→ Elements of Monopoly

The firm enjoy monopoly power because of :-
- product differentiation creates brand loyality
- Every firm has monopoly in its own brand.
- no firm can produce the product of other brand without collusion.

→ Lack of Uniformity

Size of the firms are not same
Some firms are very large and others are small
Eg :- share of Maruti Suzuki cars in Indian market is very high but, the share of Ford cars are very small in India.

→ Existence of Price Rigidity

It means there is no surety of profit even after reduction in prices.

For example:

If one firm reduce the price, other firm also reduce the price, so reduction in price does not bring profit.

→ Presence of selling Cost (advertisement)

Under differentiated oligopoly firm increases expenditure on advertisement or promotion.

Due to high cross elasticity of demand oligopoly firm promotes its product through advertisement.

→ Existence of Non-profit motives

There are also some other motives of the firms with the maximisation of profits

These are: i). sales maximisation

ii). Risk minimisation

iii). Security maximisation.

→ Some barriers to entry

There are some common barriers. due to the presence of some monopoly elements. These are :- i) Economies of scale
ii). Absolute cost advantage
iii). Patent rights
iv). Control over raw materials.

• Price and output Determination under Oligopoly

Price and output determined at the point where

$$\boxed{MC = MR}$$

Price and Output determines

↙ Under Collusive oligopoly

↘ Non-collusive oligopoly

* Collusive Oligopoly :

To avoid uncertainty and price war and cut-throat competition, oligopoly enter into agreement for uniform (same) price and output policy.

Collusion are two types :

i). Cartel ii). Price leadership

• **Cartel :** It is also called UTPAD SANGH

i) Under cartel firms jointly fix the price and output policy through agreement.
ii). Under Cartel system firm's MC curve is as horizotal shape.

• **Price leadership :**

i) Under this one firm set the prices and other firm follow him.
ii). Barometrice price leadership is best because!

under Barometrice price leadership an old and expirienced firm set the price and other firms follow it.
iii). large firm set price.

Price and output determination under Non collusive oligopoly

i). firms are not interdependent .. they follow its price and output policy independently

ii). If one firm lower the price other firms also reduce it price.
iii). If one firm increase its price, other firm will not follow him.

Homogeneous products	→	Demand curve is more elastic
Differentiated products	→	Demand curve is less elastic.

1). Price Rigidity - Sweezy's kinked demand curve

→ Given by Paul Sweezy in 1939
→ also supported by Hall and Hitch

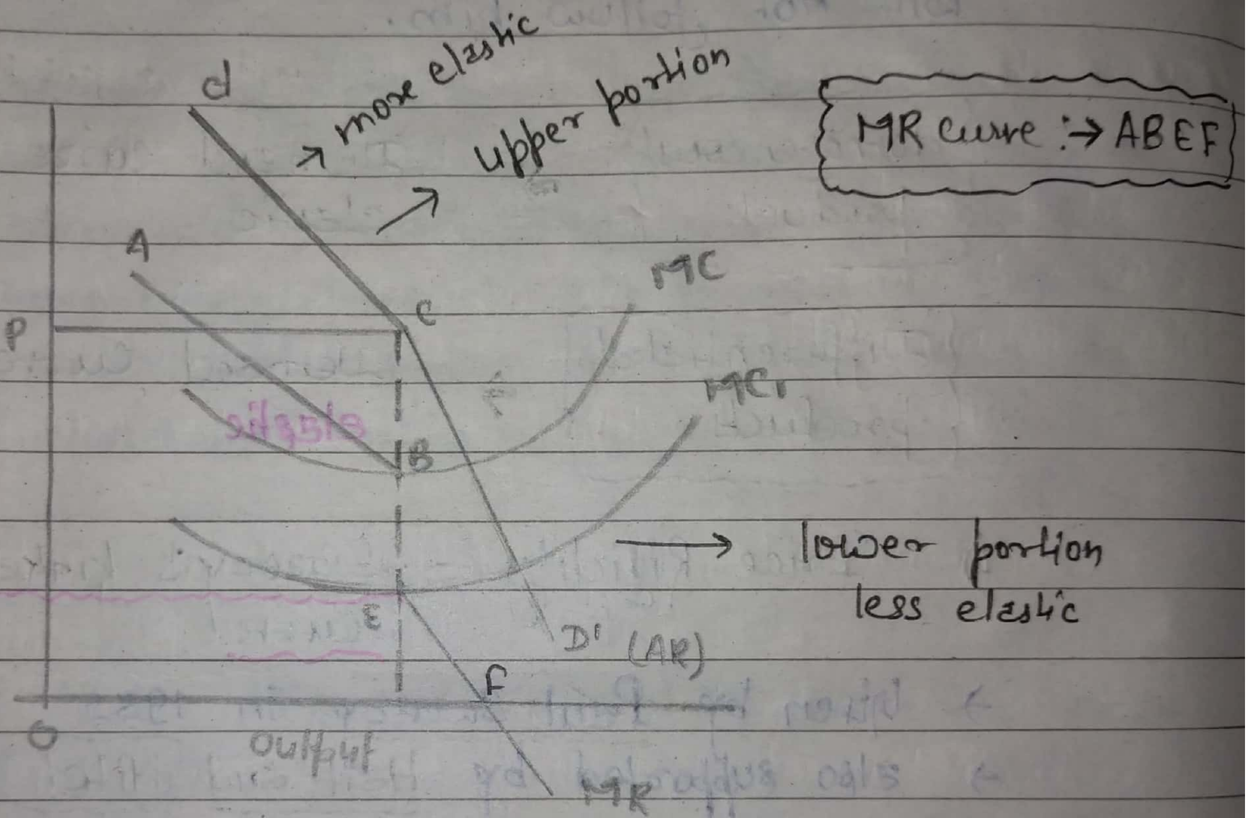
→ It established price and quantity combination
→ It measures the price rigidity as well as the quantity rigidity.

→ It has special relevance in differentiated oligopoly.

Assumptions:

i). If one firm lower the prices. Other firm also reduces the price too.

ii). If one firm increases the prices other firm will not follow him.
iii). There is prevailing price exist.



- Upper portion

→ Homogeneous products or without product differentiation

→ Demand curve is higly elastic above the prevailing prices

- lower portion

→ with product differentiation

→ Demand curve less elastic / inelastic below the prevailing price.

Note: The price stability in sweezy model applies only to "depression period".