

12.64- INTRODUCTION TO OLIGOPOLY

12.64- Analyze basic characteristics and tendencies of oligopolies.

By: Carter Greene

KICKOFF:

- ❖ Go to Google Classroom and complete the assignment “**2/13- K0**”
 - Price discrimination (online) recap
- ❖ **Roll Call:** What cell phone carrier do you have?



ANNOUNCEMENTS:

- ❖ 2/17- Quiz
- ❖ Pep Rally tomorrow
 - Knight Time next week
- ❖ Will not be Monday
 - Pray for me
- ❖ **Next Test-** Last week of February



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of oligopolies.**

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WHAT IS AN OLIGOPOLY?

- ❖ Number of firms
 - Few firms
- ❖ Control over price?
 - Substantial
- ❖ Barriers to entry?
 - High
- ❖ Product?
 - Slightly differentiated or the same
- ❖ Market power of each firm?
 - Considerable



INTERDEPENDENCE

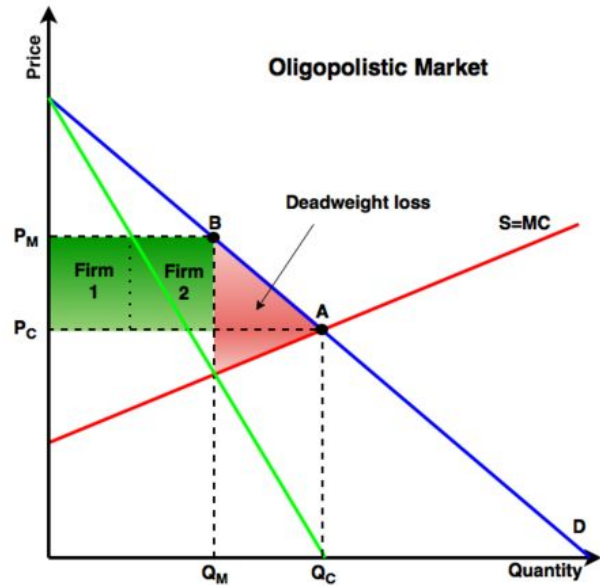
- ❖ Only market structure where firms closely consider actions of other firms in their industry
 - Output and pricing of one firm has impact on entire market
- ❖ High incentive for collusion
 - An agreement on what price and quantity to produce → forms cartel
 - Goal is to maximize industry profit
 - Antitrust laws try and prevent this

INCENTIVE TO CHEAT

- ❖ Is a firm's goal to maximize the firm or industry profit?
 - THE FIRM
- ❖ Individual firm can increase revenues and profits by increasing quantity (and decreasing price)
 - Operating on elastic portion of demand curve
- ❖ This however will hurt the industry and competitors

EFFECTS ON EFFICIENCY

- ❖ Cartel is a like a collective monopoly
- ❖ $P > MR$
- ❖ $P > MC$
- Not allocatively efficient
 - Too few produced at too high of a price
- DWL will occur
- ❖ NO GRAPHING OLIGOPOLY!!



SO WHAT DO WE NEED TO KNOW...

- ❖ Game Theory– how people and firms act strategically in the context of a game
 - Success of a strategy is dependent upon actions of another
- ❖ Will strategy change if you know what your competition will do?
- ❖ Will it stay the same?
- ❖ Will this lead to a less than ideal outcome for both?

GAME THEORY- THE GRADE GAME

- ❖ Read the top half of the paper and analyze the game theory chart (payoff matrix)
- ❖ Tear your paper into two pieces of paper half way down
 - You will then tear the bottom half into three separate sheets
- ❖ On one of your three small sheets, record your name and the grade you would like to receive
- ❖ I will now collect everyone's sheet, pair you up, and find out your grades

GAME THEORY- THE GRADE GAME

- ❖ Lets see what our class GPA is...
- ❖ Now, let's try this again.
- ❖ On one of your three small sheets, record your name and the grade you would like to receive
- ❖ I will now collect everyone's sheet and find out what our grades are
- ❖ Lets see what our class GPA is...
- ❖ Now this time, you will know who your partner is and you may talk to them for ~2 minutes about what yall will do, but you will still write down your decision

HOW DID WE DO?

- ❖ What were individual GPAs?
- ❖ What was the GPA after each round?
- ❖ Why did these things occur?

GAME THEORY RESEARCH

- ❖ Go to Google Classroom and complete the assignment **“Game Theory Research”**
- ❖ On quiz on Tuesday, the only questions you will be asked on Game Theory will be based off of this chart or the terms I tell you to mention

		TARA'S PRICE POLICY	
		High	Low
PAM'S PRICE POLICY	High	\$40, \$40	\$20, \$70
	Low	\$70, \$20	\$30, \$30

CLOSURE