Shoolini University

PRINCIPLES OF ECONOMICS

Lecture 33 OLIGOPOLY

October, 2015

TOPICS OF DISCUSSION

1. **OLIGOPOLY**

- Meaning & Examples
- Features/Assumptions
- Demand Curve of Oligopoly Firm

OLIGOPOLY

- Few firms
- Either homogeneous or differentiated products
- Interdependence of firms - policies of one firm affect the other firms
- Substantial barriers to entry

Examples: automobile industry, airlines and cigarette industry

COLLUSION AND COMPETITION

Oligopoly firms may collude and earn positive profits.

OR

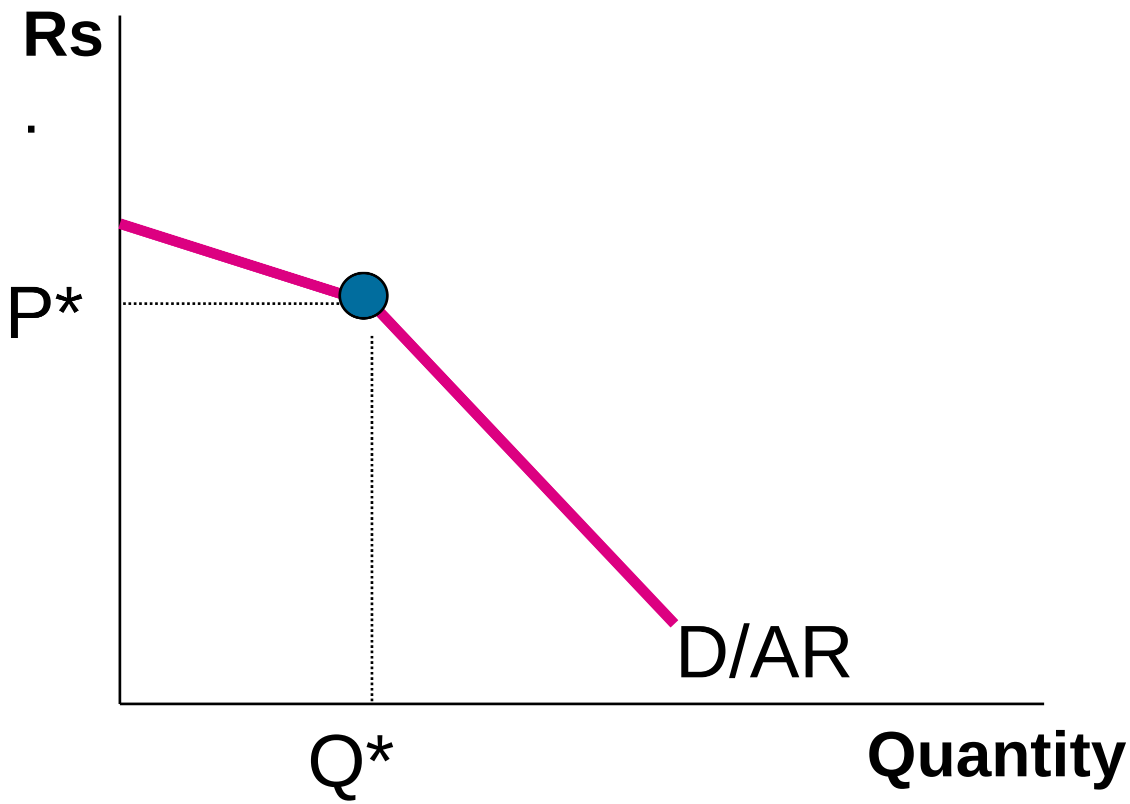
Oligopolists may compete with each other and drive prices down to where profits are zero (Price War).

SWEEZY'S KINKED DEMAND CURVE

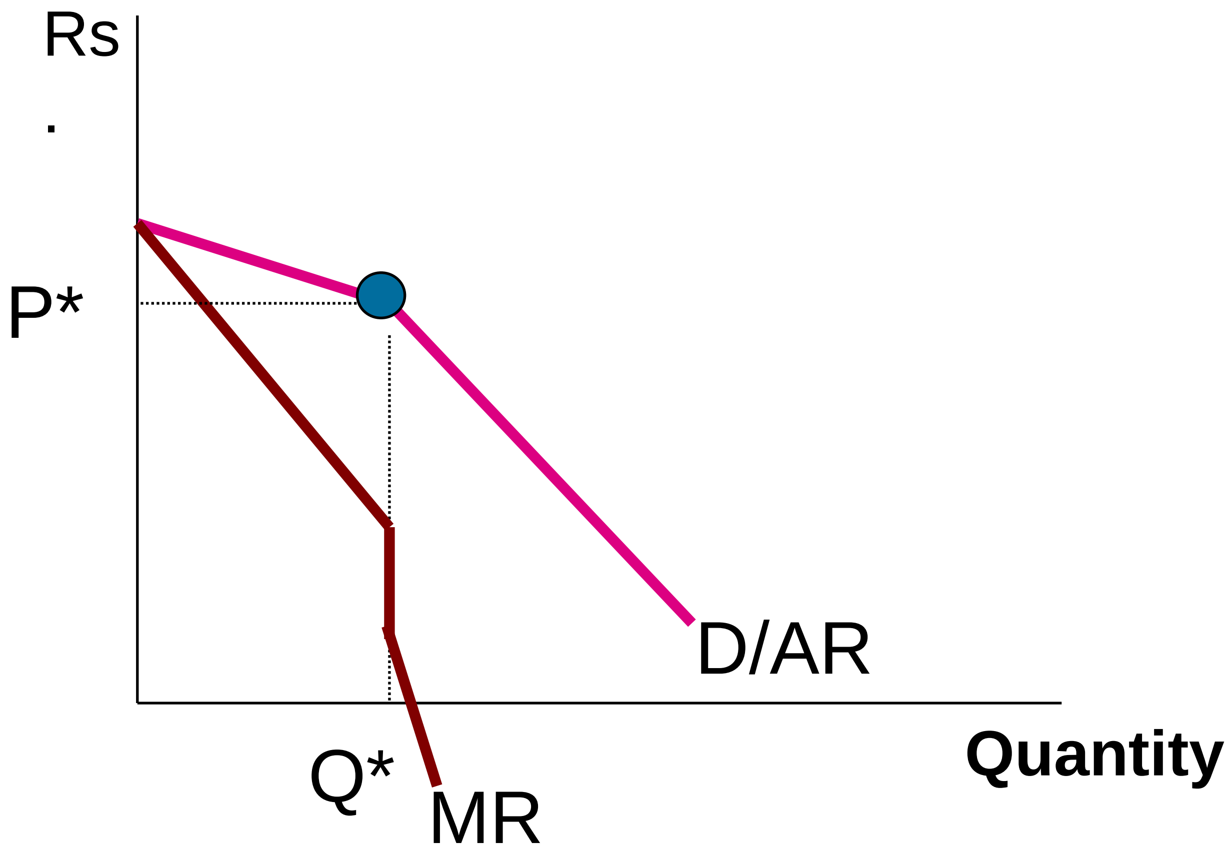
Assumptions:

- Elastic demand- If a firm raises prices, other firms do not follow and the firm loses a lot of business.
- Inelastic demand- If a firm lowers prices, other firms follow and the firm doesn't gain much business.

KINKED DEMAND CURVE



KINKED DEMAND CURVE & MR CURVE



PROFIT POSSIBILITIES UNDER OLIGOPOLY

Firm will equate Marginal Revenue with Marginal Cost to maximize profit, Compare AR with AC

- **SHORT RUN**
  - positive profit, AR>AC
  - breakeven/normal profit, AR=AC
  - loss, AR<AC
- **LONG RUN**
  - positive profit, AR>AC
  - breakeven/normal profit, AR=AC

THANK YOU ☺