YESHWANTRAO CHAPHEKAR COLLEGE, PALGHAR

PRESENTATION

ON

CHAPTER- 16.OLIGOPOLY

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MEANING

- A few sellers selling homogeneous or differentiated products.
- If the commodity is homogeneous, it is called pure oligopoly.
- If the commodity is differentiated, it is called differentiated oligopoly market.
- Theoretically, entry into oligopoly market is allowed but in reality it is very difficult.

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- In India we have oligopoly market in automobiles where each group- car, scooters, trucks is a oligopoly market.

- Some other examples of oligopoly market are airlines, refrigerators, T.V sets, A.C., etc.

- Being small in number there is possibility of these firms joining together and forming a cartel (OPEC).

Characteristics of Oligopoly

1. Few Sellers:-

- It consists of few sellers.
- The number of sellers is limited(10).
- In case there are more sellers, a few will be dominant firms, other being insignificant.

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2. Homogeneous or Differentiated product:-

- Oligopolists usually sell differentiated products.
- Differentiation is in the form of trade mark, design or service etc.
- Branding is important in this market.

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3. Entry is possible but difficult:-

- A new firm can enter the oligopoly market.
- In reality, it is highly difficult to enter in this market.
- If profits are high then new firm will try to enter this market.

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4. Interdependence:-

- Due to few firms, an individual firm is neither free nor independent to take its own decision about the output and price.

- Any change in price or output results in attraction to other rival firms.

- This market requires the understanding of Group Behaviour.

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5. Uncertainty:-

- Interdependence on other firms for one's decision creates an atmosphere of uncertainty about the out and price.
- If one increases output others will also increase..
- If one increase price other will not.

Collusive and Non-Collusive Oligopoly

1. Collusive Oligopoly:

- Collusive oligopoly comes in existence when the firms work together to reduce uncertainty in the market.

- Firms may become involved in price fixing or cartel formation.

- Price fixing takes place when all firms try to control supply(Monopoly situation).

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- This is most likely when the market is dominated be a few large firms, demand is inelastic.
- The market leader will set the price in market.
- Competition will reduce.
- Eg- Cartel formation (OPEC)

Collusive and Non-Collusive Oligopoly

2. Non-Collusive Oligopoly:

- Non-collusive oligopoly market has the following features such as a few large firms, entry barriers, non-price competition, product branding and differentiation, etc.

- Eg- Firms in airlines, mobile phones, automobiles, refrigerators, etc.

Types of Price Leadership

1. Dominant Firm Leadership:-

- One of the firms in oligopoly market may have the advantage of producing a large proportion of total output.

- Such dominant firm can influence other firms in deciding total output and price.

- Other firm being small accepts the price and output.

- Accordingly remaining firms in oligopoly adjust their output and sell it at a price decided by the dominant firm.

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2. Low Cost Firm Leadership:-

- The firm which has the benefit of low cost becomes the leader of this market.
- Low cost firm (Leader) decides the price and other firms have to accept it.
- The leader firm however may require to take care to set a price which must bring some profit to the followers.
- The higher cost firms has no option but to accept the price of a leader.

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3. Barometric Price Leadership:-

- A large, experienced and also respected firm takes up the role of leadership.
- Such a firms naturally acquires leadership because of its qualities.
- A barometric firm is expected to understand market, decide the price on the basis of demand, cost of production, competition from others, etc.

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4.Aggressive Price Leadership:-

- A large or dominant firm establishes leadership through its aggressive price policies.
- It compels other firms to accept its price policy.
- The followers have hardly any option but to follow the decision of the aggressive firm.
- Threatens to make out of market to those firms who are not accepting the decision of dominant firm.

Advantages of Price Leadership

- Avoids price war
- No uncertainty
- Avoids Interdependence
- Lowers the selling cost

THANK YOU