ANJUMAN ARTS, SCIENCE, COMMERCE COLLEGE AND P.G. CENTRE, BHATKAL.

ECONOMICS PROJECT WORK

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DEPARTMENT OF ECONOMICS

CERTIFICATE

This is to certify that ~~Mr.~~/Miss. Samiksha Ganesh Tadiyar ....is the bonafied student of our college studying B.A...3rd...... semester has carried out field visit as prescribed by the syllabus Karnatak University Dharwad & submitted the report for the partial fulfilment of **Intermediate Micro Economics** for the academic year 2022-2023

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Meaning And Characteristic of Oligopoly

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MEANING AND CHARACTERISTICS OF OLIGOPOLY.

Meaning: The term 'oligopoly' is derived from two greek words 'oligos' meaning 'a few' and 'pollen' meaning 'to sell'. Therefore, oligopoly is that form of imperfect competetion where there are a few firms in the market, producing either homogeneous products or differentiated products which are close but not perfect substitutes of each other. Oligopoly is sometimes called limited competition, incomplete monopoly.

CHARACTERISTICS OF OLIGOPOLY.

The important characteristics of oligopoly are as follows:

1. Monopoly Powers: The most important characteristic of oligopoly is that there are is an element of monopoly power in such a market. Though three are only few firms in such a market, each of them, producing a differentiated product, enjoys a monopoly position in the market.

2. Inter-dependence: In an oligopoly market, there are only a few firms, each firm producing a homogeneous or slightly differentiated product. Since the neumber of firms in the market is small, each firm enjoys a sufficiently large share of the market. It is also in a position to influence significantly the price and output policy of the industry.

3. Indeterminateness of Demand Curve: Mutual interdependence of firms in an oligopoly market creates an element of uncertainity for all the firms. No firm under oligopoly can correctly visualise the consequences of its price-output policy.

4. Conflicting Attitudes of Firms : In an oligopoly market, we observe the existence of two conflicting attitudes on the part of the firms. At times, the firms, realising the disadvantages of competitions, may desire to come together to maximize their joint profits.

5. Price Rigidity : In an oligopoly market with product differentiation, there is price rigidity. This means that the prices tend to be stickily or rigid under oligopoly. If any firm reduces its price, it will attract to itself the customers from ~~it's~~ its rivals.

PRICE DETERMINATION UNDER OLIGOPOLY.

a) Indepeodent Pricing.

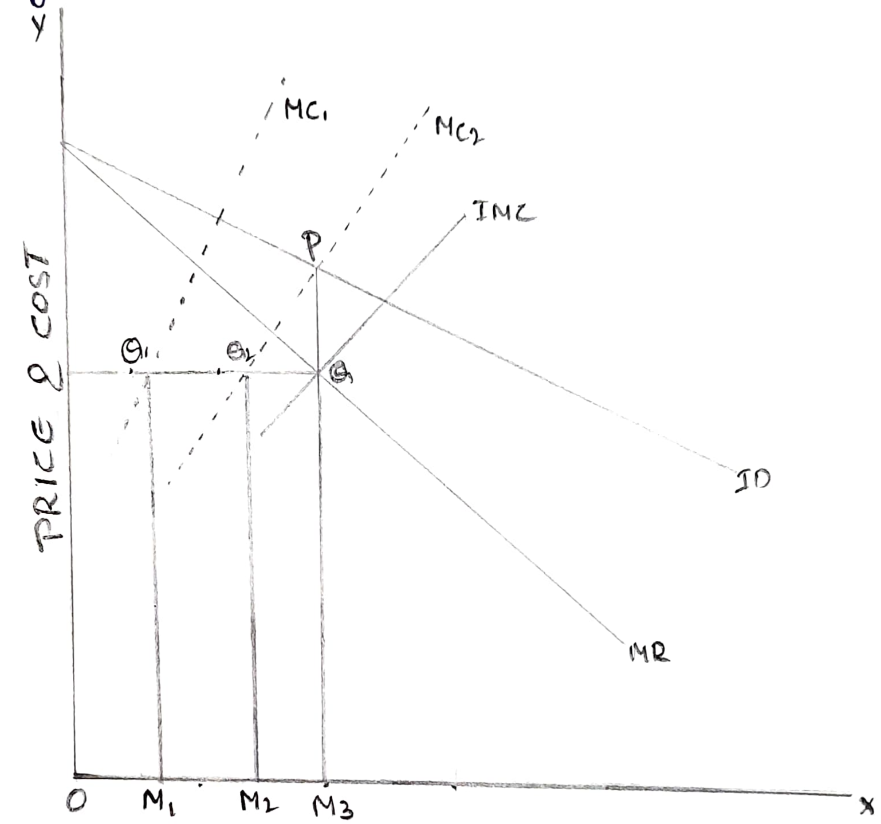
without Product Differentiation : When all the firms under oligopoly are producing homogeneous products, then independent pricing by these firms may result in an identical price for the products.

With product Differentiation : Let us assume that there is product differentiation in the oligopoly industry. Therefore, the products of each oligopoly firm are different from those of its rivals.

b) Pricing under Collusion.

Perfect Collusion : Perfect collusion takes the form of a cartel. Under cartel administration, the mangement and control of the colluding firms are transferred to a centralized agency with a view to increasing their profits.

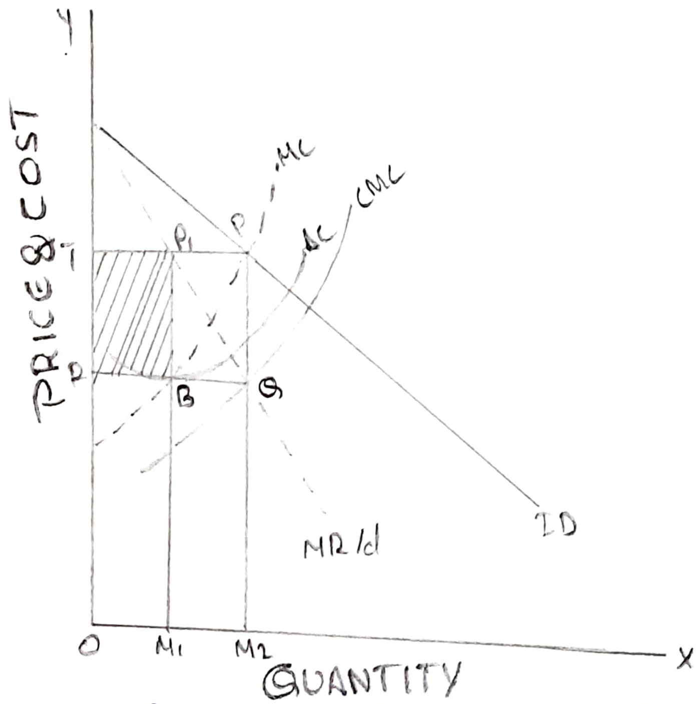
The following diagram shows the industry's demand curve [ID] and marginal revenue curve [MR]. The marginal cost of the cartel [IMC] is the sum total of the marginal cost of the industry [IMC] is equal to the marginal revenue. Therefore, the cartel will naturally produce OM_3 output for the industry and fix PM_3 price for the product. Because, it is at this output and price that the cartel is able to maximize the profits of the industry.



Further, the two firms in the oligopoly industry may be named as A and B. The marginal cost curve of the firm 'A' is MC_1 and of the firm 'B' is MC_2. the output of each firm will be fixed on the basis of its efficiency. In case these Business either temporarily or permanently. In the above example, it is assumed that the firm A is less efficient & the firm B is more efficient. Therefore, the cartel will ask the firm A to produce only OM_1 output since at this output, its marginal cost [MC_1] is equal to the combined marginal revenue [MR].

Sometimes, the member-firms of the cartel may agree to share the market equally. This is illustrated in the following diagram. [

It is assumed that the 2 member-firms of the cartel have identical cost curves - both average cost and marginal cost. The sum of the two marginal cost curves is the CMC i.e. combined marginal cost curve. ID stands for the industry's demand curve. The demand is equally distributed between the two firms. MR curve represents the marginal revenue curve corresponding to the industry's demand curve. However, it is also the demand curve for each firm,



Q is the point where the marginal revenue curve [MR/d] intersects the combined marginal cost curve [CMC]. Therefore, the industry's total output is OM_2 which is sold at the industry's price PM_2. The firm 'A' produces OM_1 output and the firm 'B' produces M_1M_2 output [$OM_1 = M_1M_2$ and $OM_2 = OM_1 + M_1M_2$]. Thus, both the firms produce the same output and sell it at the same price PM_2.

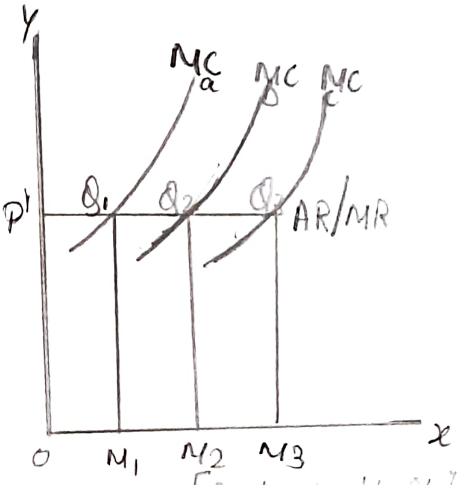
c. Price Under Leadership or Price Leadership

Price leadership is said to exist in oligopoly when price is determined by one firm in the industry and this price is accepted by all the other firms in that industry. the products of the various firms are close though not perfect substitutes.

Types of price - leadership :

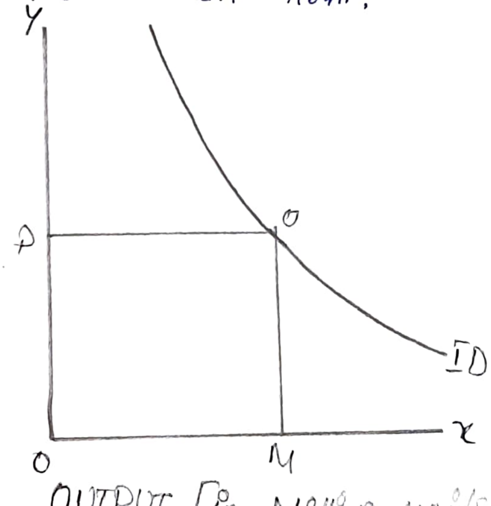
*. The Dominent firm type is the commonest type of price leadership in this form, one of the firms produces a major portion of the output of the industry.

In the following diagram the curve ID represents the total industry's demand At OP price, the industry sells OM of output, The average revenue [AR] curve of the smaller firms is a horizontal Straight line, because they have to accept the price fixed by the dominant firm.



OUTPUT [in Hundred Units]

[A]



OUTPUT [in Million units]

[B]

The other type of price leadership is barometric type Price leadership.

Price Rigidity Under Oligopoly

A common feature of oligopolistic industri-es is the price rigidity for fairly long periods despite changes in market demand and costs.

01. There is lot of uncertainty in the case of non-collusive oligopoly. Because of this uncertainty, every oligopoly firm is confronted with an indetermina-te level of price and output.

02. Large oligopoly firms donot deem it proper to make any change in the price of their products, because of the inconvenience they cause in accounting and extra expenditure they involve in the sales promotion activities such as ~~isue~~ issue of price lists and catalogues.