An Oligopolistic Market

Characteristics of an Oligopolistic Market

- An **oligopolistic market** has the following characteristics:
  - It has few sellers.
  - Firms in the market produce and sell either identical or slightly differentiated products.
  - The barriers to entry are significant.
- Oligopolistic firms are price searchers. They can raise the price of their good and still sell some, or all, of their product.

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- Oligopolistic industries can be identified by looking at the percentage of sales accounted for by the top four firms in the industry. If only a few firms account for a large percentage of sales, then the market is considered oligopolistic.

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How Much Competition Do Oligopolists Face?

- According to the conditions that characterize oligopoly, an oligopolist's product is not unique, so the market should be competitive. However, it is difficult to enter an oligopolistic market.

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Comparing the Four Markets

- A particular market can be identified as perfectly competitive, monopolistic, monopolistic competitive, or oligopolistic by comparing its characteristics to those discussed in this chapter. (See Transparency 8-2.)

Cartels

- A **cartel agreement** specifies how the firms that entered into the agreement will work together to reduce the competition among them.
- In the United States, cartel agreements are illegal.

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TRANSPARENCY 8-2: Conditions That Characterize Various Markets

Market	Number of sellers	Type of product	Barriers to entry	Control over price	Examples of products and services sold in this type of market
Perfectly competitive	Many	Identical	No barriers	No control	Wheat, corn, stocks
Monopolistic	One	Unique	Extremely high barriers	Considerable amount of control	Water, electricity, delivery of first-class mail
Monopolistic competitive	Many	Slightly differentiated	No barriers	Yes, but not as much as in monopoly	Clothing, meals at restaurants
Oligopolistic	Few	Identical or slightly differentiated	Significantly high barriers	Yes, but not as much as in monopoly	Cars, cereal

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Is It Buyers Against Sellers or Sellers Against Buyers?

- The threat of actual or potential competition from other sellers leads sellers to share the same interests as buyers. For instance, both sellers and buyers want to keep prices down. Buyers want to buy lower-cost items so that they have more money available for other purchases. Sellers want to sell lower-cost items so that they can beat their competitors in pricing.
- Competition between sellers tends to keep both prices and costs down.

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Price Discrimination

- **Price discrimination** occurs when a seller charges different prices to different buyers for the same product, and the cost of offering the product is the same for all those buyers.
- A seller may want to price discriminate to sell all of its output for the highest total revenue.
- For price discrimination to work, different customers must be willing and able to pay different prices for a good. Also, it must be impossible, or extremely costly, for a customer receiving the low price to resell the product to other potential customers.

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- A “senior discount” is an example of price discrimination.
- Price discrimination is illegal only if it results in reduced competition or if the discriminating sales cross state lines.
- Price discrimination is legal as long as no injury occurs to competition. It is also legal if the seller can show that charging a lower price to some customers is necessary to adequately compete in the market.

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