



IB Economics: [www.IBDeconomics.com](http://www.IBDeconomics.com)

### 1.21 OLIGOPOLIES <sup>HL</sup>: STUDENT LEARNING ACTIVITY

Answer the questions that follow.

#### 1. DEFINITIONS

Define the following terms:

[10 marks]

- Oligopoly
- Imperfect competition
- Product differentiation
- Elastic demand
- Inelastic demand
- Price competition
- Price war
- The profit maximising rule
- Characteristics of oligopolistic markets
- Interdependence
- Collusion
- Cartel
- Game theory
- Prisoner's dilemma game
- Nash equilibrium
- Concentration ratios
- Collusive oligopoly
- Tacit collusion
- Formal collusion
- Price leadership
- Price rigidity
- Kinked demand curve model
- Non-price competition
- Price war







1.21 Oligopolies <sup>HL</sup>

A Co. and B Co. pay-off matrix

	<b>B Co.</b>	<b>B Co.</b> high price	<b>B Co.</b> low price
<b>A Co.</b>			
<b>A Co.</b> high price		\$15m \$15m	\$25m \$3m
<b>A Co.</b> low price		\$3m \$25m	\$7m \$7m

5. The following questions refer to the “Oligopolists’ Dilemma” shown above. **[10 marks]**

a. Explain why the payoff matrix below illustrates the conflicting incentives occurring in the Prisoners Dilemma game.

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6. Use examples to outline the concept of 'concentration ratio'.

**[2 marks]**

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7. Explain why concentration ratios are calculated.

**[3 marks]**

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8. Outline two limitations of concentration ratios.

**[2 marks]**

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9. Outline the concept of oligopolistic collusion.

**[3 marks]**

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17. Outline the concept of tacit collusion.

[3 marks]

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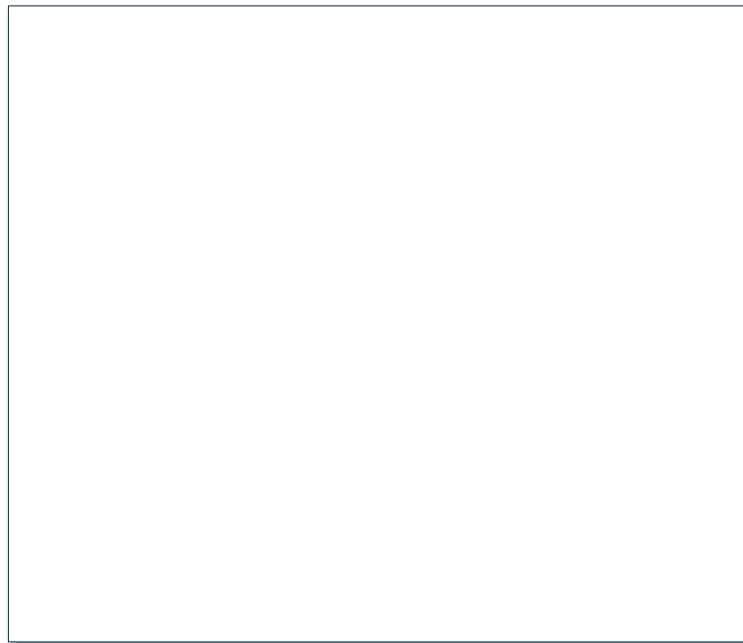
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18. Explain how price leadership is a form of tacit collusion.

[6 marks]



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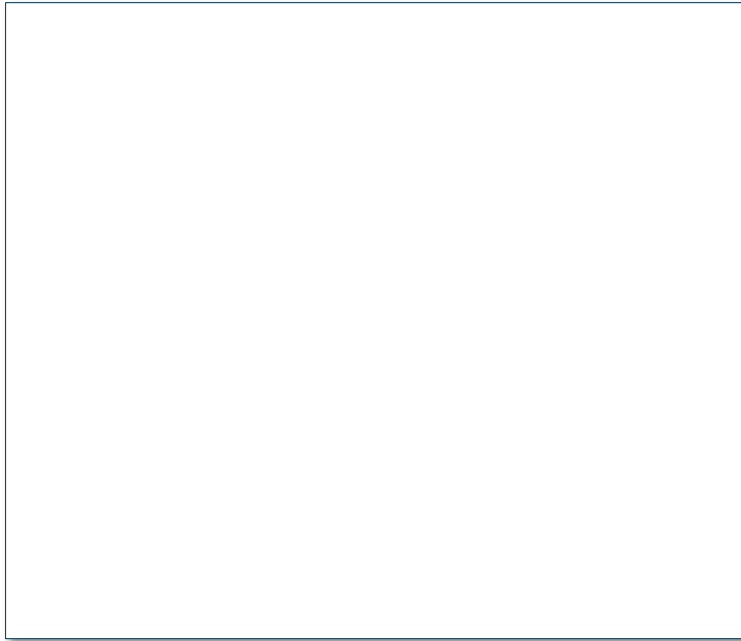
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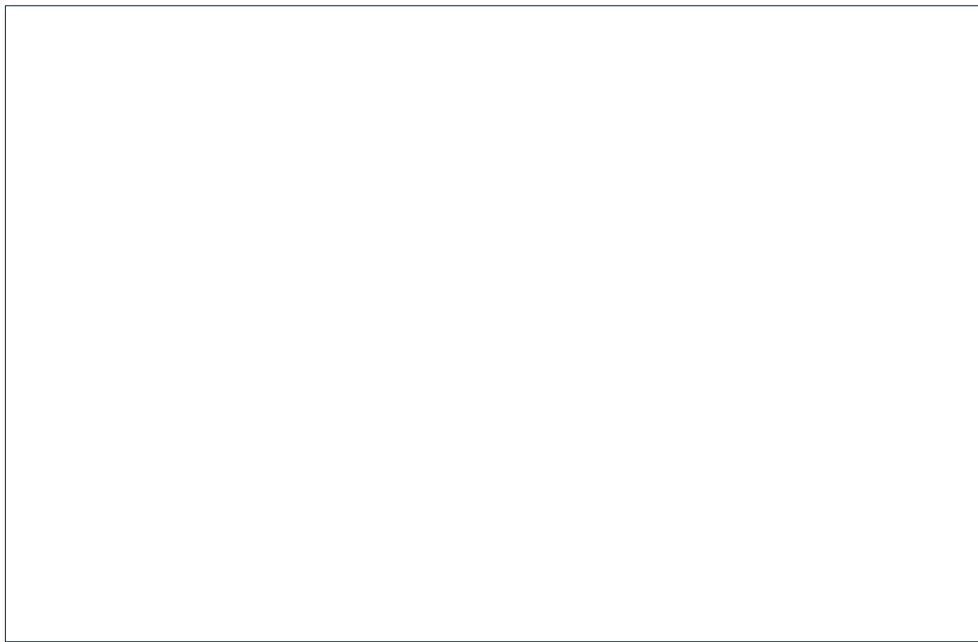
20. Draw the non-collusive oligopolist's demand curve.

[2 marks]



21. Using the concept of price elasticity of demand, explain the shape of the kinked demand curve.

[6 marks]









24. Identify examples of non-price competition.

[2 marks]

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25. Explain why non-price competition is important for oligopolistic firms.

[4 marks]

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