1.21 Oligopolies HL

IB Economics: www.IBDeconomics.com

1.21 OLIGOPOLIES HL: 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

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2. SHORT-ANSWER QUESTIONS

1. Outline the main assumptions of oligopolies. **[2 marks]**

2. Explain why oligopolies have conflicting incentives. **[6 marks]**

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3. Explain how the interdependence of oligopolies leads to conflicting incentives. **[6 marks]**

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4. Explain how the interdependence of oligopolies leads to outcomes that can be analysed through game theory (e.g., the Prisoners' Dilemma game). **[6 marks]**

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A Co. and B Co. pay-off matrix

B Co. / A Co.	B Co high price	B Co. low price
A Co. high price	$15m / $15m	$25m / $3m
A Co. 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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b. Outline each of the profit outcomes which are possible for the two firms.

c. Explain how the profit outcomes are related to the interdependence of the two firms.

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6. Use examples to outline the concept of 'concentration ratio'. **[2 marks]**

7. Explain why concentration ratios are calculated. **[3 marks]**

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8. Outline two limitations of concentration ratios. **[2 marks]**

9. Outline the concept of oligopolistic collusion. **[3 marks]**

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10. Explain the objectives of collusion in oligopolies. **[4 marks]**

11. Outline what a cartel is. **[2 marks]**

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12. Explain the relationship between collusive oligopolies and cartels. **[6 marks]**

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13. Explain how a cartel has an effect on the market resembling that of a monopoly. **[6 marks]**

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14. Explain why cartels are illegal in most countries. **[6 marks]**

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15. Outline obstacles faced by cartels in forming and maintaining the cartel. **[3 marks]**

16. Explain the incentive to cheat among members of a cartel. **[6 marks]**

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17. Outline the concept of tacit collusion. **[3 marks]**

18. Explain how price leadership is a form of tacit collusion. **[6 marks]**

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19. Distinguish between collusive and non-collusive oligopoly. **[6 marks]**

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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]**

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22. Outline what the kinked demand curve attempts to explain. **[4 marks]**

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23. Explain the following statement: The kinked demand curve model describe the strategic behaviour of oligopolistic firms. **[6 marks]**

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24. Identify examples of non-price competition. **[2 marks]**

25. Explain why non-price competition is important for oligopolistic firms. **[4 marks]**

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26. Explain why oligopolies will avoid price competition if at all possible. **[4 marks]**

27. Outline the concept of price wars. **[2 marks]**

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28. Explain why oligopolies will avoid a price war. **[4 marks]**

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