Microeconomics, Module 15, "Oligopoly, Monopolistic Competition, Product Differentiation"

Required reading for seventh edition:

(The attached PDF file has better formatting.)

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{The Landsburg textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

Read section 11.4 on "Oligopoly" on pages 384-389. Perfect competition and monopoly are extremes; financial assets and agricultural products are sold in competitive markets, and a few luxury goods are sold by monopolies, but many products are sold by oligopolies. Most consumers don't realize that a few producers dominate many markets, since each producer sells various brands or types. For instance, there are twenty or thirty types of breakfast cereal, but only a few suppliers (General Mills, Kellogg, etc.) One can buy French wine, Italian wine, Australian wine, and Californian wine that are all sold by Gallo Wines.

Read "Oligopoly with a Fixed Number of Firms" and the *Cournot model* on pages 386-387. Know the result of the Cournot argument: with a flat marginal cost curve and a linear demand curve, $Q_A = Q_B = ⅓\ Q_C$. To make sure you follow the reasoning, repeat this argument with three oligopolists of equal size to get $Q_1 = Q_2 = Q_3 = ¼\ Q_C$. The homework assignment tests this relation.

Read the paragraphs on the Bertrand model and the criticisms of the models on pages 387-389. The Bertrand model leads to the competitive equilibrium. The Cournot and Bertrand oligopolies are theoretical; firms do not behave as simplistically as these models imply. Landsburg says this as well; these models are heuristic.

Read section 11.5 on pages 389-391. The insurance industry does not have monopolistic competition, but you should understand what this term means. Read the summary on page 392.