

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

*Micro module 15: Readings for eighth edition*

(The attached PDF file has better formatting.)

Updated: October 19, 2010

{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 385-389. 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 all sold by Gallo Wines.

From "Oligopoly with a Fixed Number of Firms" and the *Cournot model*, know especially the equations on page 389. With a flat marginal cost curve and linear demand curve,  $Q_A = Q_B = \frac{1}{3} Q_C$ . To be sure you follow the reasoning, repeat this argument with three firms of equal size to get  $Q_1 = Q_2 = Q_3 = \frac{1}{4} Q_C$ . The homework assignment tests this relation.

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 390-392. The insurance industry does not have monopolistic competition, but you should understand what this term means. Read the summary on pages 392-393.

Review questions R9 and R10 on page 394. The final exam contrasts the Cournot vs the Bertrand models.

Review problem 15 on page 397. A final exam problem may give a Cournot model with more than 2 firms.

Review problem 16 on page 397. This problem tests your grasp of the reasoning for oligopoly models.

Review problems 17, 18, and 19 on page 397. Ice cream vendors is a simple example, but the reasoning extends to larger firms as well.

