

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

Micro module 15: Readings for ninth edition

(The attached PDF file has better formatting.)

{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 skipped sections are fascinating but are not tested.}

Read section 11.4 on "Oligopoly." 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 pages 383-385. 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. The insurance industry does not have monopolistic competition, but you should understand what this term means. Read the summary at the end of the chapter.

Review questions R9, R10, and R11 on page 389. The final exam contrasts the Cournot vs Bertrand models.

Review problem 15 on page 393. A final exam problem may give a Cournot model with more than 2 firms.

Review problem 16 on page 393. This problem tests your grasp of the reasoning for oligopoly models.

Review problems 17, 18, and 19 on page 393. Ice cream vendors is a simple example, but the reasoning extends to larger firms as well.