ECO100 Topic 6: Worksheet

What Is an Oligopoly?

1. What is an Oligopoly, an Oligopoly market, or competitively an oligopoly?

An **oligopoly** is the type of market where only a few firms make up almost the entire industry. Often, the products of all the dominating firms are incredibly alike, forcing them to become interdependent and closely monitor the actions of the other firms they are competing against. Therefore, there is a strong motivation to collude to keep prices higher. Equally, there is a strong motivation to break the agreement, lower your price, and capture the customer. If the agreement is strong, the prices will remain higher. (Mankiw 2018)

It is essential to note that this collusion can be termed cartel conduct which is illegal under the Australian Consumer Legislation. If a company is investigated and convicted of cartel conduct, there are very heavy penalties that apply to cartel conduct.

Task:

Read the article, [*Cartel conduct—how it affects you and your business*](https://www.accc.gov.au/system/files/Cartel%20conduct%20how%20it%20affects%20your%20business.pdf) by the Australian Competition & Consumer Commission (2011), and write **three (3)** interesting takeouts. Save this worksheet to your Reflective Journal.

|  |
| --- |
| **1.** |
| **2.** |
| **3.** |

1. How many suppliers does it take to make an oligopoly?

When considering the number of suppliers in a market, it is important to do some research beyond what may appear to be many different competing products from presumably different companies. For example, many beverage companies will have dozens of different categories and types of drinks: hot, cold, carbonated, water, sports drinks, teas, and so on. They may appear to be from different supplier companies. However, suppose the many different types of drink are all owned and supplied and priced by one company such as Coca-Cola. In that case, they are only one supplier with their combined market share, for the purposes of economic theory and oligopoly competition. What looks like many competing products on the shelf: in beverages (Coca-Cola), laundry detergent (Procter & Gamble), toiletries (Colgate-Palmolive) may be owned by just a few large companies.

A picture containing colorful

Description automatically generated

A **duopoly** exists when the competition in a market is dominated by two providers with a majority of the total market and an ability to influence prices and supply. For example, Airbus and Boeing are a duopoly in the market for commercial passenger aircraft as they have around 99% of the market between them. For an **oligopoly**, the total market share combined of the few largest suppliers is what determines if they have sufficient market power to influence each other’s strategy and overall price levels in the market. It may be 3,4,5 suppliers. With 15-30% market share each, creating the collective market power and economic dynamics. The tipping point to what becomes **monopolistic competition**, rather than an oligopoly market is:

* the total market share of the largest suppliers
* their collective market power
* their behaviour in setting prices and supply quantities.

So, three to four firms in the same market with 5-10% market share each and a total of 50% together will be monopolistic competition, not an oligopoly. A small number of firms collectively acting in ways conscious of each other, and because of their collective market share, they are influencing the total market to enhance their combined power and profit, will be an oligopoly. Where there are enough suppliers with a viable market share and sufficient differentiation, some suppliers' behaviour can change without interdependence on other suppliers’ behaviour, as there is an oligopoly.

An oligopoly is more than two firms, and **where none of them can keep the others from having significant influence**. There is no precise upper limit to the number of firms in an oligopoly, but the number must be low enough that the actions of one firm significantly influence the others (Anderson 2021).

Task:

Identify **two (2)** examples of markets where either oligopoly market conditions and producer/supplier conduct may appear to be cartel conduct, such as very similar pricing and control of supply to lessen competition.

|  |
| --- |
| **1.** |
| **2.** |