

Quadrant II - Notes

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Module Name: Meaning and Features of Oligopoly Market

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Oligopoly

- It is an important form of imperfect competition.
- Oligopoly is said to prevail when there are **few firms** or **sellers** in the market **producing or selling a product**.
- In other words, when there are two or more than two, but not many producers or sellers of a product, oligopoly is said to exist.
 - Oligopoly is often referred as "**Competition among the few**".

Features/Characteristics

➤ Interdependence

- The most important feature of oligopoly is the **interdependence in decision-making** of the few firms which comprise the industry.
- This is because when the number of competitors is few, any change in price, output, product etc. by a firm **will have a direct effect on the fortune of its rivals**.
- The rival firms will then **retaliate** in changing their own prices, output or products.

- Therefore the Oligopolistic firm must consider not only the market demand for the industry's product but also the reactions of the other firms in the industry to any action or decision it may take.

➤ **Importance of advertising and selling costs**

- A direct effect of interdependence of Oligopolists is that the various firms have to use **various aggressive and defensive marketing weapons** to gain a greater share in the market or to prevent a fall in their market share.
- For this, various firms have to incur a good deal of costs on **advertising** and on **other measures of sales promotion**.
- Therefore there is a **great importance** of advertising and selling costs under conditions of market situation characterised by Oligopoly.
- A Firm in an oligopolistic industry **competes** by changing the advertisement costs, quality of the product, prices, output etc.
- Under Oligopoly, advertising can become **life-and-death matter** where a firm which fails to keep up with the advertising budget of its competitors may find its customers drifting off to rival products.

➤ **Group Behaviour**

- Under Oligopoly, there is complete interdependence among different firms.
- So, the price and output decisions of a particular firm directly influence the competing firms.
- Instead of independent price and output strategy, Oligopoly firms prefer group decisions that will protect the interest of all the firms.

➤ **Nature of the product**

- The firms under Oligopoly may produce homogeneous or differentiated product.
- If the firms produce a homogeneous product like steel or cement, the industry is called a pure or perfect Oligopoly.
- If the firms produce a differentiated product, like automobiles, the industry is called differentiated or imperfect oligopoly.

➤ **Indeterminate of demand curve**

- Under Oligopoly, the exact behaviour pattern of a producer cannot be determined with certainty. So, demand curve faced by an Oligopolist is indeterminate (uncertain).
- As firms are interdependent, a firm cannot ignore the reaction of the rival firms.
- Thus any change in price by one firm may lead to change in prices by the competing firms.
- So, demand curve keeps on shifting and it is not definite, rather it is indeterminate.

Examples of Oligopoly Market Structure

- In India, markets for automobiles, cement, steel, aluminium, etc, are the examples of Oligopolistic market.
- In all these markets, there are few firms for each particular product.

Summary

Oligopoly is said to prevail when there are few firms or sellers in the market producing or selling a product. Oligopoly is often referred as "*Competition among the few*".

Features/Characteristics – Interdependence, Importance of advertising and selling costs, Group Behaviour, Nature of the product and Indeterminate of demand curve.