



## **[Frequently Asked Questions]**

### **Cournot Model, Reaction Curves and Bertrand Model**

<b>Subject:</b>	Business Economics
<b>Course:</b>	B. A. (Hons.), 2nd Semester, Undergraduate
<b>Paper No. &amp; Title:</b>	Paper – 201 Microeconomics II
<b>Unit No. &amp; Title:</b>	Unit – 1 Market with Imperfect Competition (Oligopoly)
<b>Lecture No. &amp; Title:</b>	Lecture – 3(One) Cournot Model, Reaction Curves and Bertrand Model

## **Frequently Asked Questions**

### **Q1. What is an oligopoly market?**

**A1.** An oligopoly market structure is described as the one where only a small number of firms operate in the market.

### **Q2. How does an oligopolist work?**

**A2.** Since each firm in oligopoly market is affected by the decision of its rivals firms, each oligopolist monitors the activities of rival firms to capture larger market share.

### **Q3. Describe Cournot competition how do the firms behave?**

**A3.** In Cournot competition firms simultaneously choose to produce their optimal quantity instead of prices.

### **Q4. What is the equilibrium level of output in Cournot model?**

**A4.** In Cournot model the equilibrium level of output remains somewhere between perfectly competitive output and monopoly output.

### **Q5. At price quantity equilibrium in Cournot model whether the firms make profits or not?**

**A5.** In Cournot model the actions of oligopolists lead to stable price-quantity equilibrium, where no firm has the incentive to change the level of output. This results in the setting of prices above marginal costs and thus firms gain super-normal profits.

### **Q6. In Cournot model what is the equilibrium level of output?**

**A6.** In Cournot model equilibrium is achieved at less than perfectly competitive level of output and the quantity sold is the same for both firms.

**Q7. Explain the concept of reaction curves.**

**A7.** Reaction curves refer to the reactions of each seller in response to the moves of his rival. The reaction curves may be output reaction curves or price reaction curves depending upon the situation whether the viable is output or price.

**Q8. What are the adjustment variable in Cournot and Bertrand models?**

**A8.** In Cournot model, output is considered as the adjustment variable while in Bertrand model price is considered as the adjustment variable.

**Q9. On what grounds Bertrand criticized Cournot model?**

**A9.** Bertrand argued that when firms choose quantities as the adjustment variable, Cournot model does not specify the mechanism that determines prices.

**Q10. Describe the achievement of equilibrium in Bertrand model?**

**A10.** In Bertrand's model equilibrium is achieved when due to price war between the duopolists, the market price falls to the level of average cost of production and the combined equilibrium output of the duopolists is equal the competitive output.