[Summary]

Cournot Model, Reaction Curves and Bertrand Model

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Unit No. & Title:	Unit – 1 Market with Imperfect Competition (Oligopoly)
Lecture No. & Title:	Lecture – 3(One) Cournot Model, Reaction Curves and Bertrand Model

Summary

An oligopoly market structure is described as the one where only a small number of firms operate in the market. There are different models of oligopoly. In Cournot model the firms first install capacity then take production related decisions. Equilibrium is achieved at less than perfectly competitive level of output and the quantity sold is the same for both firms.

JLF Bertrand criticised the Cournot model and stated that quantity is a wrong strategic variable. Bertrand's main criticism to Cournot model is that the oligopolists will end up colluding in prices. Bertrand argued that if firms choose quantities, Cournot model does not specify the mechanism that determines prices. In Bertrand model, price war goes on until the market price falls to the level of marginal cost of production.

Some economists explain duopoly equilibrium using reaction curves. Reaction curve approach refers to the reactions of a firm 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 adjustment viable is output or price. Reaction curve analysis shows that Cournot solution yields a unique and stable equilibrium under duopoly.