[Frequently Asked Questions]

Price Leadership, Quantity Leadership and Collusive Cartels

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Unit No. & Title:	Unit – 1 Market with Imperfect Competition (Oligopoly)
Lecture No. & Title:	Lecture – 3(Two) Price Leadership, Quantity Leadership and Collusive Cartels

Frequently Asked Questions

Q1. Who is called 'quantity leader' in Oligopoly?

A1. The situation of quantity leadership occurs when the firms compete on quantity. A firm that takes decision first is known as 'quantity leader', and the firm that takes into account the decision of the leader while taking quantity related decisions is called 'quantity follower'.

Q2. What does Stackelberg leadership model tell?

A2. The Stackelberg leadership model is a strategic non-cooperative game in which the leader firm moves first and the follower firms move sequentially.

Q3. When does quantity leadership prevail in Stackelberg quantity leadership model?

A3. According to Stackelberg, quantity leadership prevails when there is one dominant firm and the other firm is either small or less important in the industry.

Q4. What is the difference between Stackelberg model and the Cournot model?

A4. Stackelbergs model is a sequential game while the Cournot model is a simultaneous game. In Stackelberg duopolies, quantity sold by the leader is greater than the follower while in Cournot duopolies, the quantity sold is the same for both firms.

Q5. In price leadership situation of oligopoly markets, the price leader produces more output. Is it true?

A5. No. It is not certain whether the leader would produce more and make more profits than the follower because the production will be larger for the firm with lower marginal costs.

Q6. How price leadership is established in oligopoly?

A6. Price leadership is established when one firm sets the price and the other firms follow it. It is established either through tacit or informal and implicit understanding. It can be established either by a low-cost firm or by a dominant firm or by a relatively older and more experienced firm.

Q7. What is non-collusive oligopoly?

A7. Non-collusive oligopoly is a market where a few number of firms act independently but are aware of each other's actions.

Q8. What are the advantages of non-collusive oligopoly?

A8. Non-collusive oligopoliy can bring dynamic efficiency in those industries where innovation and investment is associated with substantial risks.

Q9. In which situation the oligopolists take production decisions simultaneously?

A9. In Cournot competition the firms simultaneously choose to produce their optimal quantity without knowing the strategies of their competitors. They forecast each other's behavior while making their own choices.

Q10. What is collusive cartel?

A10. In a collusive cartel, the oligopolists enter into an agreement to produce limited output in order to maximise profits. Moreover all the colluding firms behave as single firm and aim at maximizing their joint profits. Therefore, different firms are asked to produce different levels of output in order to minimize total cost and maximize total profits.