[Summary]

# Price Leadership, Quantity Leadership and Collusive Cartels

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| **Paper No. & Title:** | Paper – 201<br>Microeconomics II |
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**Summary**

In many situations of oligopoly markets, the firms take decisions simultaneously, without knowing the strategies of their competitors. Therefore, they forecast each other's behavior while making their own choices. The situation of quantity leadership occurs when the firms compete on quantity. A firm that takes decision first is known as quantity leader while the firm that takes decision on the bases of leader's decision is called the follower. The Stackelberg leadership model is a strategic non-cooperative game in which the leader firm moves first and other firms move sequentially. On the other hand price leadership takes place when one firm sets the price and the other firms follow it. It comes into existence either through tacit or formal agreement. Since formal agreement to establish price leadership is illegal, it is established by informal and implicit understanding. There is various types of price leadership that takes place under different market situations.

Non-collusive oligopoly is a market where a few number of firms act independently but are aware of each other's actions. Non-collusive oligopoly can bring dynamic efficiency in those industries where innovation and investment is associated with substantial risks. On the other hand in a collusive cartel, the oligopolists enter into an agreement to behave as single firm. They are asked to produce different levels of output in order to minimize total cost and maximize joint profits.