Session Outline

Collusive models of oligopoly
Game Theory
Price leadership

- In this form one firm sets price and other firms follow it because it is advantageous to them or because they prefer to avoid uncertainty.
- If the product is homogenous and if there are no transport costs, the same price will be charged by all firms.
- However if the product is differentiated, prices will differ but the direction of their change will be the same and the same price differential will be more or less maintained.
Price leadership

Types

- Price leadership by a low cost firm
- Price leadership by a large (Dominant firm)
- Barometric Price leadership
Price leadership

- Price leadership by a low cost firm
- Price is set by the low cost firm.
Price leadership

- **Price-leadership** is a form of oligopoly in which one dominant firm sets prices and all the smaller firms in the industry follow its pricing policy.
Price leadership

- **Price leadership by a dominant firm**
- Oligopoly market is dominated by few firms among which one may be the largest player.
- Example: Google, Intel, Nokia, IBM, Maruti, Godrej etc.
- The other firms acknowledge the leadership of the largest firm for price determination.
Price leadership

- Price leadership by a dominant firm
- A dominant firm is a leader in term of market share or presence in all segments, or just being the pioneer in particular product category.
- Leader is very large in size and earns economies of scale, produces optimum output at which it is able to maximize returns.
Price leadership

- Price leadership by a dominant firm
- This dominant firm may be either a benevolent or an exploitative firms.
- A benevolent firm allows other firm to exist by fixing a price at which small firms may also sell.
Price leadership

- Price leadership by a dominant firm
- Creation of Benevolent Firm:
  - It lets other exist so that it does not have to face allegation of monopoly creation.
  - It earns sufficient margin at this price and still retains market leadership.
  - Success of this type of leadership depends on the assumptions that others will follow the leader.

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Price leadership

- **Price leadership by a dominant firm**
- An exploitative leader fixes a price at which small inefficient players may not survive and thus it gains a large share of the market.
Price leadership

- **Price leadership by Barometric firm**

- Some markets may be such that no single player is so large to emerge as leader, but there may be one firm which has better understanding of the markets.

- This firm acts like a barometer for the market.

- A barometric has better industry intelligence and can preempt and interpret its external environment in an effective manner.
Session References

Micro Economics : ICFAI University Press
Managerial economics – Geetika, Ghosh and Choudhury
Managerial Economics – D N Dwivedi
Managerial Economics – Dr Atamanand