2. OLIGOPOLY

Oligopoly is the most prevalent form of market organization in the manufacturing sector of modern economies where like a monopolist, the reason for the formation of oligopoly are same. They are economies of scale, control over the sources of raw material, patents etc.

Characteristics of Oligopoly:

1. **Strong Interdependence**: since number of sellers is few (generally 2 to 10) therefore operationally it means all firms are interconnected. So we have strong interdependence among firms. It means any change in price, output or advertisement decisions taken by a firm will have some direct impact on rival firms. They will retaliate by changing their price, output or advertisement strategy.
2. **Group Behavior**: in monopoly we have concept of "individual behaviour" whereas in perfectly competitive market we have "mass behaviour". But the theory of oligopoly is a theory of "group behaviour".
3. **Selling Cost**: advertisement plays an important role in oligopoly market. Since number of sellers is few & they are interdependent on each other so to maintain the existing share or to gain a greater share one firm has to follow very aggressive or defensive advertisement strategy.
4. **Non-Price Competition**: firms avoid price cutting because it will lead to price war. Customer then will try to buy from that seller, selling at cheapest price. Such a price war will drive few firms out of the market. Therefore firms try to follow non-price competition.
5. **Restricted Entry**: there is blocked entry or no free entry & exit in oligopoly market.
6. **Indeterminateness of Demand Line:** as firms are interdependent on each other so a firm cannot ignore the actions taken by the rival firms. So quantity of a firm should depend on rival's reaction. Since rival's reaction is

indeterminate or a firm cannot predict the output decision of other firm so demand line is also indeterminate.

7. **Indeterminate Solution**: Since demand line is indeterminate so MR line is also indeterminate. So equilibrium solution cannot be determinate by equality of MR & MC.

- If the product is "homogeneous" or perfect substitutes then it will be called a "**pure oligopoly**"
- If the product is "differentiated" or close substitutes then it will be called a "**differentiated oligopoly**"

Concept of Collusive Oligopoly & Non-Collusive Oligopoly:

ASPECTS	NON-COLLUSIVE OLIGOPOLY	COLLUSIVE OLIGOPOLY
CONCEPT	Firms do not collude but compete with each other	Firms might decide to collude together & not to compete with each other
OBJECTIVE	Maximize its own profit	Maximize joint or collective profit
BEHAVIOUR	Firms behave independently	Firms working together & form a Cartel which behave like a monopolist
EXAMPLE	Amazon, Flipkart	OPEC (Organization of Petroleum Exporting Countries)