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Chapter 1 : Collusive Price Leadership. - CORE

Price leadership is when a leading firm in its sector determines the price of goods or services. This can leave the leader's rivals with little choice but to follow its lead and match the prices.

Types, Price-Output Determination and Feedback! In certain situations, organizations under oligopoly are not involved in collusion. There are a number of oligopolistic organizations in the market, but one of them is dominant organization, which is called price leader. Price leadership takes place when there is only one dominant organization in the industry, which sets the price and others follow it. Sometimes, an agreement may be developed among organizations to assign a leadership role to one of them. The dominant organization is treated as price leader because of various reasons, such as large size of the organization, large economies of scale, and advanced technology. According to the agreement, there is no formal restriction that other organizations should follow the price set by the leading organization. However, sometimes agreement is formal in nature. Price leadership is assumed to stabilize the price and maintain price discipline. This also helps in attaining effective price leadership, which works under the following conditions: When the number of organizations is small ii. Entry to the industry is restricted iii. Products are homogeneous iv. Demand is inelastic or less elastic v. Organizations have similar cost curves Types of Price Leadership: Price leadership helps in stabilizing prices and maintaining price discipline. There are three major types of price leadership, which are present in industries over a passage of time. These three types of price leadership are explained as follows: Refers to a type of leadership in which only one organization dominates the entire industry. Under dominant price leadership, other organizations in the industry cannot influence prices. The dominant organization uses its power of monopoly to maximize its profits and other organizations have to adjust their output with the set price. The interests of other organizations are ignored by the dominant organization. Therefore, dominant price leadership is sometimes termed-as partial monopoly. Price leadership by the leading organization is most commonly seen in the industry. Refers to a leadership in which one organization declares the change in prices at first and assumes that other organizations would accept it. The organization does not dominate others and need not to be the leader in the industry. Such type of organization is known as barometer. This barometric organization only initiates a reaction to changing market situation, which other organizations may follow it if they find the decision in their interest. On the contrary, the leading organization has to be accurate while forecasting demand and cost conditions, so that the suggested price is accepted by other organizations. Barometric price leadership takes place due to the following reasons: Lack of capacity and desire of organizations to estimate appropriate supply and demand conditions. This influences organizations to follow price changes made by the barometric organization, which has a proven ability to make correct forecasts. Rivalry among the organizations may make a leader, which can be unacceptable by other organizations. Thus, most of the organizations prefer barometric price leadership. Implies a leadership in which one organization establishes its supremacy by threatening the organizations to follow its leadership. Price-Output Determination under Price Leadership: Different economists have developed different models for determining price and output in price leadership. Here, we would discuss a simple model for determining price and output in price leadership, which is shown in Figure Suppose there are two organizations, A and B producing identical products where organization A has a lower cost of the production than organization B. Therefore, consumers are indifferent between these two organizations due to identical products. This implies that both the organizations would face same demand curve, which further represents equal market share. Let us first start the discussion of price leadership with the case of organization A. In such a case, the price of organization B is more as compared to organization A. However, both the organizations have to charge the same price as products are homogeneous. In this case, organization A is the price leader and organization B is the follower. Thus, organization A will dictate the price to organization B. Both the organizations will follow the same output, OQ and price OP. However, the profits earned by organization B are less than A, as it has to produce at price OP which is less than its profit maximizing price, OP1. In addition, the organization B also has high costs of production that leads to lower profits at price OP1. Drawbacks of Price Leadership: The price leadership suffers from various drawbacks. These are discussed as follows: Makes it difficult for the price leader to assess the reactions of followers. Leads to malpractices, such as charging lower prices by rival organizations in the form of rebates, money back guarantees, after delivery free services, and easy installment facility. The prices charged by rival organizations are comparatively less than the prices set by the price leader. Leads to non-price competition by rival organizations in the form of aggressive promotion strategies. Influences new organizations to enter into the industry because of price rise. These new organizations may not follow the leader of the industry. Poses problems if there are differences in cost of price leaders and price followers.

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Chapter 2 : Price Leadership Assignment Help - Price Leadership Homework Help Online

In nearly all cases price leadership is tacit since open collusive agreements are illegal in most countries. Price leadership is more widespread than cartels, because it allows the members complete freedom regarding their product and selling activities and thus is more acceptable to the followers than a complete cartel, which requires the.

Types and Price-Output Determination Article shared by: Types and Price-Output Determination! Price leadership is an important form of collusive oligopoly. Under it, one firm sets the price, others follow it. Price leadership also comes into existence either through tacit or formal agreement. But as the formal or open agreement to establish price leadership is generally illegal, price leadership is generally established as a result of informal and tacit understanding between the oligopolists. The competing oligopolists in an informal meeting choose a leader and agree to follow him in setting price. Types of Price Leadership: Price leadership is of various types. Firstly, there is a price leadership by a low-cost firm. In order to maximise profits the low-cost firm sets a lower price than the profit-maximizing price of the high-cost firms. Since the high-cost firms will not be able to sell their product at the higher price, they are forced to agree to the low price set by the low-cost firm. Secondly, there is a price leadership of the dominant firm. Under this one of the few firms in the industry may be producing a very large proportion of the total production of the industry and may therefore dominate the market for the product. This dominant firm wields a great influence over the market for the product, while other firms are small and are incapable of making any impact on the market. As a result, the dominant firm estimates its own demand curve and fixes a price which maximises its own profits. The other firms which are small having no individual effects on the price, of the product, follow the dominant firm and accepting the price set by it and adjust their output accordingly. Thirdly, there is a barometric price leadership under which an old, experienced, largest or most respected firm assumes the role of a custodian who protects the interests of all. He assesses the change in the market conditions with regard to the demand for the product, cost of production, competition from the related products etc. Naturally, other firms follow him willingly. Fourthly, there is exploitative or aggressive price leadership under which a very large or dominant firm establishes its leadership by following aggressive price policies and thus compels the other firms in the industry to follow him in respect of price. Such a firm will often initiate a move threatening to compete the others out of market if they do not follow him in setting their prices. Economists have developed various models concerning price-output determination under price leadership making different assumptions about the behaviour of price leader and his followers. We shall first explain price-output determination under price leadership by a low-cost firm. In order to simplify our analysis we make the following assumptions: The firm A has a lower cost of production than firm B. In other words, demand curve facing each firm will be the same and will be half of the total market demand curve of product. Given the above assumptions, price and output determination under price leadership is illustrated in Fig. Each firm is facing demand curve Dd which is half of the total market demand curve DD for the product. MR is the marginal revenue curve of each firm. Cost curves of firm A lie below the cost curves of firm B because we are assuming that firm A has a lower cost of production than firms. It will be seen from the figure that profit- maximising price OP of firm A is lower than the profit- maximising price OH of firm B. Because the profit- maximising price OP of firm A is lower than the profit-maximising price OH of firm B, firm A will dictate the price to the firm B or, in other words, firm A will win if there is price war between the two and will emerge as a price leader and firm B will be compelled to follow. Given these facts, the agreement reached between them, even though tacit it may be, will require that the firm A will act as the price leader and firm B as the price follower. It should be noted that firm B after having accepted firm A as the price leader will actually charge price OP and produce and sell OM. This is because at price OP, it can sell OM output like firm A because the demand curve facing each firm is the same. Thus both the firms will charge the same price OP and sell the same amount OM. But there is an important difference between the two. While firm A, the price leader, will be maximising its profits by selling output OM and charging price OP, the firm B will not be making maximum profits with this price- output combination because its profits are maximum at output ON and price OH. Profits earned by firm B by producing and selling output OM and charging price OP will be smaller than those of firm A because its costs are greater. When the products of the price leader and his price-followers are differentiated, then the price charged by them will be different but the prices charged by the followers will be only slightly different either way from that of the price leader and they will conform to a definite pattern of differentials. To explain this we assume that the dominant firm knows the total market demand curve for the product. Further, the dominant firm also knows the marginal cost curves of the smaller firms whose lateral summation yields the total supply of the product by the small firms at various prices. This implies that from his past experience the dominant firm can estimate fairly well the likely supply of the product by the small firms at various prices. With this information, the leader can obtain his demand curve. Consider panel a of Fig. At each price the leader will be able to sell the part of the market demand not fulfilled by the supply from the small firms. Thus at price P1 the small firms supply the whole of the quantity of the product demanded at that price. P2Z in panel b is equal to C T in panel a. At price P3, the supply of the product by the small firms is zero. Therefore, the whole market demand P3U will have to be satisfied by the price leader. Likewise, the other point of the demand curve for the price leader can be obtained. In panel b of Fig. AC and MC are his average and marginal cost curves. The followers, that is, the small firms will charge the price OP and will together produce PB. It is worth noting that in order that profits of the leader are maximised it is not enough that followers should charge profit-maximizing price OP set by him, he will also have to ensure that they produce output PB. If the followers produce more or less than this, given the market demand DD, the leader will be pushed to a non-profit maximising position. This implies that if price-leadership is to remain, there must be some definite market-sharing agreement tacit though it may be. Difficulties of Price Leadership: Price leadership involves many difficulties in the real world. If his estimates about the reactions of his rivals to price changes by it prove to be incorrect, then not only the success of his price policy but also his leadership in the market will be jeopardised. A good number of devices which amount to secret price cutting are used by business firms. Price leaders are generally fed up with the increasing number of concessions granted by their rivals and they make an open price cut to prevent further fall in their share of the market. In such circumstances price leadership becomes infructuous. Another important difficulty of maintaining price leadership is the tendency on the part of the rivals to indulge in non-price competition to increase sales while go on charging the price set by the price leader. While charging the same price, the rivals try to increase their share of the market by increasing the advertisement expenditure. As a result of this non-price competition, the price leader has also to adopt similar devices to prevent the fall in its sales or has to make outright cut in price in order to achieve his objective. In view of these facts, the price leader may not be able to maintain his leadership for a long time. Further, there is a great limitation on the price leader to fix a high price of his product. This is because the high price will induce the rivals to make secret price cuts which will adversely affect the sales of the price leader. Moreover, a high price fixed by the price leader will attract new competitors into the industry which may not accept his leadership. Lastly, differences in costs also pose a problem. If the price leader has higher costs, then the high price fixed by him will, as mentioned above, induce the rivals to undercut price or will attract the entry of new firms into the industry. If the price leader has lower costs than his rivals, he will set a low price which will antagonise his rivals who will disturb him quite frequently.

Chapter 3 : Price Leadership (With 3 Forms and Diagrams)

collusive price leadership 95 Second, the disparity in profits between the leader and follower can be reduced (and a more "equitable" distribution of profits achieved) if the price.

Another form of collusion is price leadership. Price leadership is widespread in the business world. It may be practiced either by explicit agreement or informally. In nearly all cases price leadership is tacit since open collusive agreements are illegal in most countries. Price leadership is more widespread than cartels, because it allows the members complete freedom regarding their product and selling activities and thus is more acceptable to the followers than a complete cartel, which requires the surrendering of all freedom of action to the central agency. If the product is homogeneous and the firms are highly concentrated in a location the price will be identical. However, if the product is differentiated prices will differ, but the direction of their change will be the same, while the same price differentials will broadly be kept. There are various forms of price leadership. The most common types of leadership are: The characteristic of the traditional price leader is that he sets his price on marginalistic rules, that is, at the level defined by the intersection of his MC and MR curves. The other firms are price-takers who will not normally maximise their profit by adopting the price of the leader. The Model of the Low-cost Price Leader: We will illustrate this model with an example of duopoly. It is assumed that there are two firms which produce a homogeneous product at different costs, which clearly must be sold at the same price. The firms may have equal markets or they may come to an agreement to share the market equally as in figure The important condition for this model is that the firms have unequal costs. The follower would obtain a higher profit by producing a lower output XBe and selling it at a higher price PB. However, it prefers to follow the leader, sacrificing some of its profits in order to avoid a price war, which would eliminate it if price fell sufficiently low as not to cover its LAC. It should be stressed that for the leader to maximize his profit price must be retained at the level PA and he should sell XA. This implies that the follower must supply a quantity 0XB in figure Although the price- leadership model stresses the fact that the leader sets the price and the follower adopts it, it is clear that the firms must also enter a share-of-the-market agreement, formally or informally, otherwise the follower could adopt the price of the leader but produce a lower quantity than the level required to maintain the price set by the leader in the market, and thus push indirectly, by not producing enough output the leader to a non-profit-maximising position. The model of the Dominant-firm Price Leader: In this model it is assumed that there is a large dominant firm which has a considerable share of the total market, and some smaller firms, each of them having a small market share. The market demand DD in figure It is also assumed that the dominant leader knows the MC curves of the smaller firms, which he can add horizontally and find the total supply by the small firms at each price; or at best that he has a fair estimate, from past experience, of the likely total output from this source at various prices. With this knowledge the leader can obtain his own demand curve as follows. At each price the larger firm will be able to supply the section of the total market not supplied by the smaller firms. That is, at each price the demand for the product of the leader will be the difference between total D at that price and the total S1. For example, at price P1 the demand for the product of the leader will be zero, because the total quantity demanded D1 is supplied by the smaller firms. At P2 the total demand is D2; the part P2 A is supplied by the small firms and the remaining AD2 is supplied by the leader. At P3 total demand is D3 and the total quantity is supplied by the leader since at that price the small firms do not supply any quantity. Having derived his demand curve dL in figure The dominant firm leader maximises his profit by equating his MC to his MR, while the smaller firms are price-takers, and may or may not maximise their profit, depending on their cost structure. It is assumed that the small firms cannot sell more at each price than the quantity denoted by S1. However, if the leader is to maximise his profit, he must make sure that the small firms will not only follow his price, but that they will also produce the right quantity PB, at price P. Thus, if there is no tight sharing-the-market agreement, the small firms may produce less output than PB and thus force the leader to a non-maximising position. In this model it is formally or informally agreed that all firms will follow exactly or approximately the changes of the price of a firm which is considered to have a good knowledge of the prevailing conditions in the market and can forecast better than the others the future developments in the market. In short, the firm chosen as the leader is considered as a barometer, reflecting the changes in economic environment. Usually it is a firm which from past behaviour has established the reputation of a good forecaster of economic changes. A firm belonging to another industry may also be chosen as the barometric leader. For example, a firm in the steel industry may be agreed as the barometric leader for price changes in the motor-car industry. Barometric price leadership may be established for various reasons. Firstly, rivalry between several large firms in an industry may make it impossible to accept one among them as the leader. Secondly, followers avoid the continuous recalculation of costs, as economic conditions change.

Chapter 4 : Collusion - Wikipedia

The authors study the pattern of pricing in which price changes are first announced by one firm and then matched by its rivals. In their model, this price leadership facilitates collusion under.

A penalty for price discounts Advance notice of price changes Information exchange Examples[edit] Collusion is illegal in the United States , Canada and most of the EU due to antitrust laws, but implicit collusion in the form of price leadership and tacit understandings still takes place. Several examples of collusion in the United States include: Market division and price-fixing among manufacturers of heavy electrical equipment in the s, including General Electric. The sharing of potential contract terms by NBA free agents in an effort to help a targeted franchise circumvent the salary cap. Price fixing within food manufacturers providing cafeteria food to schools and the military in Market division and output determination of livestock feed additive, called lysine , by companies in the US, Japan and South Korea in , Archer Daniels Midland being the most notable of these. There are many ways that implicit collusion tends to develop: The practice of stock analyst conference calls and meetings of industry participants almost necessarily results in tremendous amounts of strategic and price transparency. This allows each firm to see how and why every other firm is pricing their products. If the practice of the industry causes more complicated pricing, which is hard for the consumer to understand such as risk-based pricing , hidden taxes and fees in the wireless industry, negotiable pricing , this can cause competition based on price to be meaningless because it would be too complicated to explain to the customer in a short advertisement. This causes industries to have essentially the same prices and compete on advertising and image, something theoretically as damaging to consumers as normal price fixing. In any given industry, these may include: The number of firms: As the number of firms in an industry increases, it is more difficult to successfully organize, collude and communicate. Cost and demand differences between firms: If costs vary significantly between firms, it may be impossible to establish a price at which to fix output. There is considerable incentive to cheat on collusion agreements; although lowering prices might trigger price wars , in the short term the defecting firm may gain considerably. This phenomenon is frequently referred to as "chiseling". New firms may enter the industry, establishing a new baseline price and eliminating collusion though anti-dumping laws and tariffs can prevent foreign companies entering the market. An increase in average total cost or a decrease in revenue provides incentive to compete with rival firms in order to secure a larger market share and increased demand.

Chapter 5 : Collusive Price Leadership

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Price and Output Determination under Cartel Article shared by: Price and Output Determination under Cartel! The agreement may be either formal open or tacit secret. But since formal or open agreements to form monopolies are illegal in most countries, agreements reached between oligopolists are generally tacit or secret. When the firms enter into such collusive agreements formally or secretly, collusive oligopoly prevails. But collusions are of two main types: In a cartel type of collusive oligopoly, firms jointly fix a price and output policy through agreements. But under price leadership one firm sets the price and others follow it. The one which sets the price is a price leader and the others who follow it are its followers. The follower firms adopt the price of the leader, even though they have to depart from their profit-maximising position, as they think that it is to their advantage not to compete with their leader and between themselves. But now-a-days all types of formal or informal and tacit agreements reached among the oligopolistic firms of an industry are known as cartels. For instance, the formation of a cartel is illegal in U. However, in spite of the illegality of cartels they are still formed in U. Formal collusion or agreement among the oligopolists may itself take various forms. Formation of such a formal collusion is generally designated as perfect cartel. Thus under perfect cartel type of collusive oligopoly, the price and output determination of the whole industry as well as of each member firm is determined by the common administrative authority so as to achieve maximum joint profits for the member firms. The total profits are distributed among the member firms in a way already agreed between them. The share from total profits of each member firm is not necessarily in proportion to the output quota it has to supply and the cost it incurs on it. The output quota to be produced by each firm is decided by the central administrative authority in such a way that the total costs of the total output produced is minimum. In fact, under perfect cartel, the central authority determines the separate outputs to be produced by the various members and the price they have to charge in the same way as a monopolist operating multiple plants would do. Now, the question arises as to what outputs different firms in a cartel will be asked to produce so that the total cost is made minimum. Total cost will be minimised when the various firms in the cartel produce such separate outputs so that their marginal costs are equal. This is because if the marginal costs of the member firms are not equal, then the marginal units of output could be produced at a smaller cost by the firms with a lower marginal cost than by those with a higher marginal cost. Let us now see how the cartel works and determines its price and output. Let us assume that two firms have formed a cartel by entering into an agreement. We assume that the cartel will aim at maximising joint profits for the member firms. As the demand curve facing a cartel will be the aggregate demand curve of the consumers of the product, it will be sloping downward as is shown by the curve DD in Fig. This has been done in Fig. It will be seen in Fig. Having decided the total output OQ to be produced, the cartel will allot output quota to be produced by each firm so that the marginal cost of each firm is the same. This can be known by drawing a horizontal straight line from point R towards the Y-axis. It will be seen from the figure that when firm A produces OQ1 and firm B produces OQ1 the marginal costs of the two firms are equal. Thus, the determination of output OQ and price OP and the outputs OQ1 and OQ2 by the two firms A and B will ensure the maximum joint profits for the member firms constituting the cartel. It will be seen from Fig. The sum of the profits, that is, the joint profits made by the cartel will be maximum under the given demand and cost conditions as they have been arrived at as a result of equating combined marginal cost MCc with the combined marginal revenue MRc. Relative bargaining strengths will presumably determine the division of profits. The formation of perfect cartels, as described above, has been quite rare in the real world even where their formation is not illegal. In a perfect cartel not only the price but also the output to be produced by each member of a cartel is decided by a central management authority and profits made in all of them are pooled together and distributed among the members according to the terms of a prior agreement. But when cartels are loose, instead of being perfect, the distribution of profits and fixation of outputs of individual firms are not determined in a manner perfect cartel does. In a loose type of cartel the market-sharing by the firms occurs. Further, there are two methods of market sharing: Market-Sharing by Non-Price Competition: Under market sharing by non-price competition, only a uniform price is set and, the member firms are free to produce and sell the amount of outputs which will maximise their individual profits. Though the firms agree not to sell at a price below the fixed price they are free to vary the style of their product and the advertising expenditure and to promote sales in other ways. That is, the price being a fixed datum, the firms compete on non-price basis. If the different member firms have identical costs, then the agreed uniform price will be the monopoly price which will ensure maximisation of joint profits. But when there are cost differences between the firms as is generally the case, the cartel price will be fixed by bargaining between the firms. The level of this price will be such as will ensure some profits to high-cost firms. But with cost differences such loose cartels are quite unstable. This is because the low cost firms will have an incentive to cut price to increase their profits and therefore they will tend to break away from the cartel. However, they may not openly charge lower price than the fixed one and instead cheat the other firms by giving secret price concessions to the buyers. However, as the rivals gradually loose their customers, the cheating by the low-cost firms will be ultimately discovered and consequently open price war may commence and cartel breaks down. Market-Sharing by Output Quota: The second type of market-sharing cartel is the agreement reached between the oligopolistic firms regarding quota of output to be produced and sold by each of them at the agreed price. If all firms are producing homogeneous product and have same costs, the monopoly solution that is, the maximisation of joint profits will emerge with the market being equally shared by them. However, when costs of member-firms are different, the different quotas for various firms will be fixed and therefore their market shares will differ. The quotas and market shares in case of cost differences are decided through bargaining between the firms. During the bargaining process, two criteria are usually adopted to fix the quotas of the firms. One is the past level of sales of the various firms and the second is the productive capacity of the firms. Ultimately the quotas fixed for various firms depend upon their bargaining power and skill. The second common basis for the quota system and market sharing is the division of market region-wise, that is, the geographical division of the market between the cartel firms. It is worth noting that all types of cartels are unstable when there exists cost differences between firms. The low cost firms always have a tendency to-reduce price of the product to maximise their profits which ultimately results in the collapse of the collusive agreement. Further, if the entry of firms in the oligopolistic industry is free, the instability of the cartel is intensified. The new entrants may not join the cartel and may fix a lower price of the product to sell a large quantity. This may start a price war between the cartel firms and the new entrants. We thus see that the stability of the cartel arrangement is always in danger.

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Chapter 6 : What Is the Price Leadership Model? | racedaydvl.com

uncooperativebehaviorifanyfirm"cheats"onthecollusive racedaydvl.com the leader'sprice is followed in equilibrium, it obviouslychooses the industryprice it most desires.

Price leadership refers to a situation where a single firm acts as a leader and sets the price, whereas the other firms follow the leader firm or the dominant firm. One real life example of price leadership involved General Motors. General Motors acted as a price leader for many years and its prices were followed by Chrysler and American Motors. The competitive fringe of firms take price as it is and maximize their profits, which are subject to the residual demand curve. There are two striking features: While discussing about price leadership, a number of unanswered questions immediately comes to the mind: Price leadership can be differentiated into three different forms: Markham has described this model as "price leadership in lieu of overt collusion". However, the method through which price leadership could achieve the coordination necessary to sustain monopolistic outcomes has not been spelled out. The second model is "barometric" price leadership. It refers to a situation in which the price leader merely announces the price that would prevail anyway under a competition. In contrast to the collusive price leader, the barometric price leader has no power to affect the price substantially that is charged generally in the industry. As a result, the actual price, which is charged, soon diverges from that announced by the barometric firm, which in turn is unable to exert any disciplining influence to prevent this from happening. The dominant firm model of price leadership or the price leadership model of oligopoly is based on the assumption that between two firms, one firm is a low cost firm or a dominant firm and the other firm is a competitive firm. The dominant firm acts as a leader firm. Each of the two firms has an equal share in the market. The price and output determination under price leadership have been explained below with the help of a diagram: The quantity supplied by the competitive firm is mentioned through Qcf. Unfortunately, this model cannot explain the behavior of oligopolies in a scenario where there are several large firms. Such large firms cannot be assumed to take as given the price set by any one firm. Rather, they should be expected to act strategically. In price leadership models, the equilibrium output is lower than the competitive level of output but greater than the level of output that is reached if the dominant firm is the only single firm that is operating and acts as a monopolist. Hence, in this case, the dead weight loss DWL depends on the weighted average of welfare loss or efficiency loss from complete monopoly and perfect competition. The weights depend on the industry elasticity of demand , elasticity of supply of the dominant firm and the competitive firms and the market shares of each firm. Q Under what conditions will a business enterprise become a price leader? Will a price leader provide greater control over a competition than a trade association?

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Chapter 7 : Tacit collusion - Wikipedia

Price Leadership under Oligopoly: Types, Price-Output Determination and Feedback! In certain situations, organizations under oligopoly are not involved in collusion. There are a number of oligopolistic organizations in the market, but one of them is dominant organization, which is called price leader.

In their model, this price leadership facilitates collusion under asymmetric information. In equilibrium, the leader earns higher profits than the follower. Nonetheless, if information is sufficiently asymmetric, the less informed firm prefers to follow the better-informed firm, so the leader can emerge endogenously. The authors show that the follower can benefit from price rigidity so that prices may be changed infrequently. They also show that overall welfare may be lower under collusive price leadership than under overt collusion. Copyright by Blackwell Publishing Ltd. As the access to this document is restricted, you may want to search for a different version of it. More about this item Access and download statistics Corrections All material on this site has been provided by the respective publishers and authors. You can help correct errors and omissions. See general information about how to correct material in RePEc. For technical questions regarding this item, or to correct its authors, title, abstract, bibliographic or download information, contact: Wiley Content Delivery or Christopher F. General contact details of provider: If you have authored this item and are not yet registered with RePEc, we encourage you to do it here. This allows to link your profile to this item. It also allows you to accept potential citations to this item that we are uncertain about. We have no references for this item. You can help adding them by using this form. If you know of missing items citing this one, you can help us creating those links by adding the relevant references in the same way as above, for each refering item. If you are a registered author of this item, you may also want to check the "citations" tab in your RePEc Author Service profile, as there may be some citations waiting for confirmation. Please note that corrections may take a couple of weeks to filter through the various RePEc services. More services and features.

Chapter 8 : Collusive Oligopoly: Price and Output Determination under Cartel

Collusive Model. In collusive price leadership, a few key firms all tacitly agree to keep their prices the same. This often happens without any outright agreement -- which could be illegal -- and.

Chapter 9 : Price Leadership: Types and Price-Output Determination

Thus, there may be unwritten rules of collusive behavior such as price leadership (tacit collusion). A price leader will then emerge and it sets the general industry price, with other firms following suit.