

CONCEPT: CHARACTERISTICS OF OLIGOPOLY

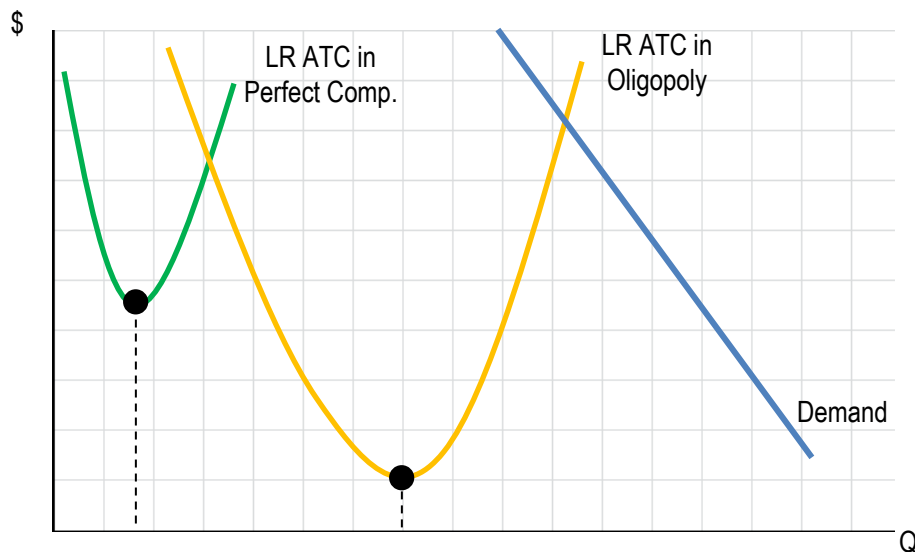
- A market is an **oligopoly** when:

- ☐ Nature of Good: The goods for sale are _____
- ☐ Setting Price: The sellers are _____
 - There are _____ producers
 - Firms are _____ → One firm's price decision affects all firms in industry.
 - **Market power** – the ability of one person (or group) to have substantial influence on _____
- ☐ Entry and Exit: Entry to the market is _____ by **barriers to entry**.
- ☐ Example Product:

- Barriers to entry make sure that other firms cannot enter into an oligopoly market:

- ☐ Ownership of Key Resources
 - De Beers controlled substantially all diamond mines for a long period of time.
- ☐ Government Regulation
 - **Patents** give the owner the _____ right to produce a good for twenty years.
- ☐ Economies of Scale

- An industry is an oligopoly when the quantity where costs are minimized satisfies a large part of demand.



PRACTICE: One difference between oligopoly and monopolistic competition is that:

- a) A monopolistically competitive industry has fewer firms
- b) Fewer firms compete in oligopoly than in monopolistic competition
- c) In monopolistic competition, products are identical
- d) Monopolistic competition has barriers to entry

PRACTICE: An example of oligopoly is:

- a) Wheat farming
- b) The clothing industry
- c) The restaurant industry
- d) Cellular phone service

PRACTICE: A key feature of an oligopolistic market is that

- a) Each firm produces a different product from other firms
- b) A single firm chooses a point on the market demand curve
- c) Each firm takes the market price as given
- d) A small number of firms are acting strategically

PRACTICE: A major threat to long term profits exists when barriers to entry into an industry are high

- a) True
- b) False
- c) None of the above