

Explaining Price Rigidity

- Oligopolists rarely change their prices.
 - How can we explain this phenomenon?
- Possible explanation:
 - What if my pricing decision affects yours?
 - Normally, my demand curve is drawn assuming that your price is constant
 - If I raise my price, will you follow?
 - If I reduce my price, will you follow?

Kinked Demand Curve

- What happens to P^* when MC changes?

Price Leadership

- The “dominant firm” sets price, others follow
- Leader demand = market demand – follower demand
- Leader prices as monopolist facing total – follower demand

- Leader chooses price, followers sell as much as they want at that price
- Examples?

Information and Search

- Prices vary across seller
 - The minimum price identified declines in the amount of “search”
 - The benefit of search increases in the underlying dispersion
 - MB declines
 - The cost of search is time spent
 - MC constant
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- What does advertising do?
 - Reduces the cost of search
 - Helps consumers find low-cost sellers
 - Induces firms to charge low prices