

# Oligopoly

Business



Intel exists in an oligopolistic market; in semiconductor manufacturing market. Semiconductors are major components of all computer models. There exist only a small number of major competitors in the market. Some of the competitors include AMD (Advanced Micro Devices), Texas Instruments (TXN), Samsung, and Toshiba.

Intel has worked hard to attain the pole position in the semiconductor market. In 80's, Intel was ranked 10th in the market. Intel managed to achieve pole position in the year 1991. Over the years, Intel has engaged in unorthodox methods to try and maintain dominance over the market. This has resulted in major court battles over antitrust issues by competitors and the government. One such recent case pitted New York and Intel Corporation (Reuters, 2012).

**Introduction** An oligopoly can be termed as a market structure in which there is dominance by a small number of sellers. The fact that there are a few numbers of sellers results into the various players knowing, directly or indirectly, about the actions of the other players. Therefore, the decision of one firm tends to play a role in influencing the decisions made by other firms. Also, the firm that is making a decision first takes into consideration the decisions of other firms. As such, strategic plans of the various players must take into account the responses likely to be exhibited by other participants (Blinder & Baumol, 2008). Lack of considering the decisions of other players can ultimately lead to loss of market share.

The market uses several barriers to ensure that entry into the market is minimized. Some of the barriers used include patents, expensive methods of

production, economies of scale, and strategic actions by firms. Another source of barrier to entrance into the market could be where the government enacts legislations that tend to favor the existing firms. All the above factors contribute to deterring other firms from entering into the market. However, in some instance, firms tend to use unfair methods to dominate the market.

This act of unfair play is called antitrust; which led to the enactment of antitrust laws. Some of the unlawful restraints by firms include price fixing conspiracies and corporate mergers that would likely reduce competition in various markets (Stelzer & Shenefield, 2001). Also, contractual agreements between buyers and sellers can be termed as being illegal. This paper will look into a case related to a breach of antitrust laws, in an oligopolistic market, by Intel. New York vs.

Intel Corporation The case, New York vs. Intel Corporation, pitted th giant semiconductor manufacturer against New York's attorney general. Intel was accused of having carried out a worldwide campaign. The campaign by Intel was aimed at forcing consumers, of Intel products, to continue using their products. The increase of the market share was at the expense of Advanced Micro Devices Inc. The attorney general reiterated that Intel Corporation tried to force major computer manufacturers to use their products.

Some of the company's Intel bribed or intended to coerce, directly or indirectly, included Hewlett-Packard andDell. The reason for Intel's dominance, and ability to force the firms, was due to the company being a major force in the semiconductor market. The corporation went on to threaten the computer firms with retaliation in the case that those firms did

not accept their demands. To further aggravate the matter, evidence from emails showed that the company's top officials were aware of the impending activities. Some of the top officials included Intel's chief executive officer.

Beforehand, Intel had been accused by the Federal Trade Commission of unlawfully killing competition in computer parts. Intel was ordered to pay a paltry \$ 6.5 million dollars; compared to profits earned (Reuters, 2012). As such, the unfair dealings by Intel were a total violation of state and federal antitrust laws. Unfair play by Intel meant that the firm would maintain a total hold of the semiconductor market.

This would enable Intel to be able to control the computer market. Having a total control of the market would leave Intel being able to control prices of the products. The ability to control the market would create a phenomenon known as dominant price leadership (Vives, 2001). This is a situation whereby one firm can be able to control the prices in a market. Other smaller firms have no option but to take the prices dictated by the price leader. In this case, the price leader would be Intel and the other small firms would be the price takers.

The graph below illustrates the phenomenon of dominant price leadership. Where: MCF-Sum of the marginal cost curves for small firms MCI-Marginal cost curve of the leading firm DT-Demand for the entire industry DL-Leading firm's demand curve MRL-Marginal revenue curve of leading firm QL-Output for the leading firm QT-total output for that industry In the graph, the small firms would be price takers; therefore, the small firms would act as perfect competitors. The small firms would thus produce up to the point where the

price is equal to the marginal cost; this implies that the marginal cost curve is the supply curve of each firm. The total supply by the small firms would be the sum of their marginal costs curves. If the dominant firm (Intel) is satisfied in setting the price, then it would let the small firms supply the quantity that they desire.

It can then be assumed that the dominant firm would supply the residual demand. If then we assume that the price set is  $P_0$ ; then the smaller firms would meet that total demand in the market. Therefore, the leader sets a price lower than  $P_0$ . The demand available for the dominant firm is the distance between  $D_T$  and  $MCF$ ; which gives the residual demand ( $Q_L - Q_T$ ) at point A to B. Given the demand curve  $D_L$ , the dominant firm maximizes profit at a production level where the  $MCL$  is equal to  $MRL$ . The output for the market by the dominant firm ( $Q_L$ ) earns a profit maximizing price ( $P_L$ ).

The two are determined by the price leader's demand curve (Puu, 2010). Intel would be able to control the prices in case it controls a large market share in that other firms would be unable to fight with Intel. The only way that smaller firms could be able to take on the giant corporation would be through a price war. However, the small firms cannot be able to win a price war against Intel. This is due to Intel having the ability to use economies of scale to fight back.

Intel reduces production costs by producing in bulk. This implies that Intel can at the same time be able to sell at a cheaper price than the other small firms in the market. Overall, this would impact heavily on the market. Small firms would be driven out of business while consumers would suffer by

paying excessively high prices. The impact of high prices would be a loss of social welfare as the optimum output for the market would not be produced.

To keep the prices up, there would be a production of fewer goods than the total market demand (Blinder & Baumol, 2008). In conclusion, the government entails to protect consumers and other small firms from big firms. This has led to the enactment of antitrust laws. Antitrust laws are meant to stop big firms from holding the market at ransom. The case of Intel can be used to show how gullible big firms can be in their endeavor to maximize their market share and profits.