

Monopoly and oligopoly: what do they have in common

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At its most simplistic definition, it is easy to understand that a monopoly is the name given to a circumstance with one seller and many buyers. Then the simple theory of supply and demand is that of a market with many sellers and many buyers. An oligopoly, on the other hand, is more than one seller, but less than many sellers. It is only logical, therefore, to ask, "What is many?" What, for example, happens if there are two sellers? Though many economists suspect that the results of two sellers are more similar to those of one seller than to those of many sellers. Where then, does this leave the definition and explanation of oligopoly?

When the possession of market power is profitable, it should attract new entrants into the industry. If entry is easy, then the existence of very few or even only one firm may not result in economic inefficiency. An oligopoly describes a market dominated by a few firms. In the world market, there are oligopolies in steel production, automobiles and semi-conductor manufacturing. But, oligopoly also describes conditions in smaller markets where a few gas stations, grocery stores or alternative burger restaurants dominate in their fields. A distinguishing characteristic of oligopoly is the interdependence of firms. An oligopoly can occur in different forms, such as, balanced and unbalanced oligopoly. The concentrated market power that may exist in oligopoly markets can be increased through mergers and acquisitions that can be horizontal or vertical. Because oligopoly is such a varied market structure, it should come as no surprise that several theories exist to explain price, output, and other factors. The motivation of an oligopolist is different than that of a monopolist or a perfect competitor. Oligopolies tend to be predatory and may sacrifice profit for a gain of market

share. The ultimate intention is to force competitors out of business and assume a position of monopoly. (Bhuyan and Lopez 1055)

In principle, an oligopoly's profits can never be higher than those of a monopoly, since the monopoly chooses the price that maximizes industry profits. The essence of oligopoly is that the firms interact. Thus to gain an understanding of oligopoly we need tools suitable for analyzing situations in which decision makers interact. Commonsense would suggest that the more concentrated the oligopoly is, the fewer and bigger the firms are, so that it more nearly resembles a monopoly than the nearer monopoly profits and prices the industry will come. As a result there are significant factors that are able to reduce the power and reach of an oligopoly. Such factors include: demand and cost difference, the number of firms involved, cheating, recession, potential entry into the market or industry, and legal obstacles such as anti-trust laws.

If one of the firms within the oligopoly continually presents opportunities for costs savings for its customers, without a reduction in service or product, it is certain to out perform its fellow providers. Such a situation clearly presents a circumstance in which the cost difference is a key factor. A similar statement can be made regarding the number of firms that make up the larger, collective oligopoly. Once again, depending on the circumstance and the provider, the more firms that exist in the arena, the less likely a true oligopoly is likely to survive. The idea of fraud, cheating, or other inappropriate practices is also likely to lessen the impact or efficaciousness of one firm over another. An economic recession presents yet another set of

factors that are likely to be detrimental to one or more of the firms involved in an oligopoly since factors such as superior marketing strategies, better consumer advantages, or simple market demand are likely to lessen the number of competing firms. Obviously, such factors also play a determining factor in potential entry to the industry and its market in the first place. Finally, the very real threat of anti-trust laws is also a potential threat to a market structure of oligopoly. If, and when, it appears that the consumers' choices are limited by a structured industry group, concerns of anti-trust are rightfully presented. An oligopoly is a hybrid market structure that walks a fine line in the regulatory ground. As such, it also presents a much greater realm of possibilities by which it can be regulated, as well as criticized.