Discussion 1 week 7 new

Business

Eco550 Week 7 Scenario Script: Best-Practice Tactics, Game Theory, and Pricing Techniques and Analysis ECO550 Week 7 Scenario Script: Best-Practice Tactics, Game Theory, and Pricing Techniques and Analysis

a) What market structure will Katrinas Candies operate if the above condition prevails?

Katrinas Candies operates in an oligopolistic market. This is because there are three other firms which are dominating the chocolate market and Katrinas Candies is number four.

b) What pricing strategy for Katrinas would you recommend under the above market structure?

The pricing strategy I would recommend for Katrinas under the above market structure is kinked demand curve theory. This demand curve theory is most suited for firms which deal with differentiated products. The demand curve is represented by the figure below.

The demand curve is known is referred to as kinked since the tow demand curves intersect at b. A firm in an oligopolistic market experiences a kinked demand curve as a result of stiff competition in the market. The firms in the oligopolistic markets have a mutual interdependence and therefore, competitor firms will respond to the decision made by Katrinas Candies. Thus, the demand curve explains why there is a tendency of prices to remain stable in an oligopolistic market.

The demand curve has two segments. One segment is relatively elastic while the other one is relatively inelastic. When a firm increases its price above price p, the firm will face a more elastic demand curve since the other firms will not follow. The demand curve will be represented by MD1. On the other hand, when a firm reduces the price, the others are likely to follow and reduce their prices too. This is because more consumers are likely to move to the firm which offers the cheaper price. At this point, the demand becomes more elastic. As such, the high rate of mutual interdependence affects the output and price of the firm.

References

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