

# Principles of microeconomics oligopolies case study

[Economics](#), [Microeconomics](#)



## **Introduction**

There are various forms of market. Each has their own set of characteristics such as the number of sellers, the level of competition, the response of the market to every decision made by the sellers and vice versa, and basically all sorts of factors that come into play whenever we talk about microeconomics. Market structure, in economics, is the term used to describe the varying number of firms that produce the same or identical products and line of products. Monopolistic competition, oligopoly, duopoly, monopsony, oligopsony, and perfect competition are all types of market structure and to be able to clearly and accurately describe oligopoly, it would help to know the main differences between these forms of market structure.

## **Different Market Structures: Oligopoly vs. the Rest**

A monopolistic competition is in essence, similar to the perfect competition market structure only that the competitive qualities among the participant sellers in this market structure is not that perfect, although high. There is a high number of firms that sell the same products or line of products, and this is why the participants in the market when graph would normally appear to be numerous. Also because of the competitive nature of this market structure, the price often fluctuates, as in a perfect competition market structure, usually in favor of the consumers' interests.

A monopsony is a market structure where there is only one buyer or a homogeneous group of buyers that purchase commodities from a variety of sellers. It is technically the upside down version of a monopolist market in which there is only one seller or a homogenous group of sellers that market

their commodities to a certain population. And according to the microeconomic theory of imperfect competition, a buyer who is participating in a monopsonist market should well be able to dictate the terms and conditions of its every transaction because basically, the sellers do not have the option of selling their manufactured or marketed products to any other buyer or group of buyers so they would have to adhere to whatever terms the buyer party would lay out for them to survive and keep the revenue flow consistent. Obviously, most of the events that happen in this form of market structure favor the buying group a lot more than the selling group.

A monopoly is the exact opposite of the monopsonist market structure. In a monopolistic market, there is a large market and there is only a single seller or a group of sellers who would of course have the leverage to dictate the terms and policies of every transaction. Oftentimes, negotiated terms under this market structure are in favor of the seller, which have the monopoly over a certain line of products, especially if that line of products is considered a necessity (e. g. food, clothing, electricity, water, utilities, etc.)

A perfect competition market structure is the more competition-intensive version of the monopolistic competition market. The same rules basically apply. There are a large number of firms that manufacture, market, and then sell the commodities. The trade rules come in adherence to the international policies regarding free trade so there should be no barriers to the influx and outflux of commodities, and barriers that would limit the choices of the consumers on from whom they wanted to buy. The demand curve, or the shifting of trends in demand, under the context of a perfect competition market structure, is also perfectly flexible since a single seller's decision

could have a direct impact on the market behavior and even on that certain seller's market share, positively or negatively. The cut-throat type of competition is very common in this type of market structure.

Lastly, an oligopolistic market structure is where a market or an entire industry is dominated or controlled by few or a small number of sellers which under this context, are usually referred to as Oligopolists. The characteristics of this market structure can be strikingly similar to that of the monopolistic one wherein competition is significantly reduced leading to a decrease in the consumers' leverage as well—a scenario which would most likely result to higher costs and generally more unfavorable deals for consumers. Even so, the market is still not monopolized and “ alternatively, oligopolies can see fierce competition because competitors can realize large gains and losses at each other's expense” . This means that despite the reduced number of sellers, they could still well change the behavior of the market as long as they would be willing to cut their competitors' throats and gain the upper hand when it comes to the share of the market.

## **Summary of Basic Market Structure Characteristics**

Identify the factors which have contributed to the rise in popularity of Football

The real roots of football or soccer's history are not exactly clear. There are evidences that show that soccer has been played by the Chinese during the Han Dynasty, during the 2nd and 3rd centuries using rounded objects.

Likewise, there are other evidences that dictate that the Greeks and shortly afterwards, the Romans, also became involved in playing the sport. One of

the most widely accepted theory is the one that suggests that soccer was first played in Great Britain during the Middle Ages. There were even instances wherein kings, particularly English and Scottish kings, banned the involvement of people with the sport because of the violence and unproductiveness that it ensued. Some evidences even suggest that football, during the middle Ages, were played using the foot and using the heads of the prisoners as the ball itself. The number and variation of what the evidences are trying to imply about the history of football and how this old sport made it to the limelight today nonetheless show that football has been around for such a long time, despite the uncertainties about its real roots and origins. One of the qualities that made football so popular is the level of skill and at some point, showmanship that football players have to possess in order to deliver an at least decent game. Football is no ordinary game. It requires a significantly higher level of skill and coordination than sports that allow their players to use their hands. With the latest developments in the football industry such as the establishment of national football associations and other governing bodies, it has truly developed into one of the biggest and most profitable professional sports. More and more people every day becomes involved with this sport—thanks to the word-of-mouth advertising scheme, that markets and industries related to football are also gradually but continuously increasing. One of which is the football apparels' industry which would be the subject of this paper. The exponential increase in the number of football apparels manufactured and sold worldwide has definitely contributed to the sharp increase in this old sport's popularity, aside from the word-of-mouth scheme.

The scenario wherein lots of people buy football league tickets and other football merchandises can actually be one of the marketing schemes that made football so popular. The scenario subconsciously tells other people who are still not part of the football bandwagon to try it and the more people they see who love football, the more reason they have to love the game as well.

It is somewhat similar to the word-of-mouth advertising scheme too.

Nonetheless, whatever that advertising scheme that made football so popular is, it sure gave football's popularity a huge boost. Today, that hugely boosted popularity can still be strongly felt despite the numerous economic downturns that the states in Europe and America have experienced. The popularity of Football just continues to grow and grow.

According to an article published in the Wall Street Journal, one of the main reasons how the football industry continue to thrive despite all the economic catastrophes in the past decades is advertising. " Football looms large in the advertising strategy for athletic equipment companies like Nike and Under Armor and businesses associated with the experience of watching the game on TV also are big ad buyers—everything from Frito Lay to Coors light, from La-Z-Boy recliners to giant flat-screen TVs" .

Companies that are eager and willing to invest more on advertising usually pay big bills to obtain ad spots during major league games. A major league broadcast with 30 seconds of air time for example, would cost around 3. 5 million USD.

## **How might the success of a price fixing ring be compromised by the growing number of participants?**

Price fixing is the “ establishment of the price of a product or service, rather than allowing it to be determined naturally through free-market forces; antitrust legislation makes it legal for businesses to decide to fix their prices under specific circumstances but it is important to know that there is no legal protection against government price fixing” . In a way, price fixing can be considered as a maneuver that could help for-profit organizations that sell the same product or line of products to a variety of consumer groups obtain an equal footing on the market, or even take advantage of the fact that they themselves could set the prices, no matter how high it is, as long as they keep the price-fixing ring intact. Suppose there is an oligopoly (in this example, there are two sellers) of football merchandises in the U. S. Now, if these two sellers would be that too forcing to generate additional revenue, one of them can set the selling price higher or lower. Either way, the other seller would have to react to the increase or decrease in pricing of the other one. A decrease in pricing would for example, most likely lead to a higher share of the market, which would definitely hurt the other company who as a result of the price decrease now offers the considerably higher selling prices. To eliminate this, these two oligopolists may enter into a price fixing agreement, which is somewhat deemed unethical in any industry. Under the price fixing agreement, they can impose the prices of common goods, everyone will most likely benefit.

In the case for example, 25 USD-priced football merchandise was being sold for not lower than 39. 99 USD, as a result of the sellers forming a price fixing

ring. Anyone who breaks that ring would allegedly be punished by cutting their supply of merchandises which would of course ultimately hurt their businesses. They impose this kind of pressure because they know that the moment one or a few members of the price fixing ring yields, all businesses within that ring would be inflamed. Also, companies who could be found guilty of violating certain acts against price fixing would face legal and monetary charges. A price fixing ring is like a secret. The less people involved the better. No one will squeal the secret if group count is only two or even three, but make that number ten and the risks of facing the consequences of price-fixing could overflow.

### **Identify the welfare consequences associated with the prohibited actions by the Competition Act of 1998**

The Competition Act of 1998 is basically “ an act to make provision about competition and the abuse of a dominant position in the market; to confer powers in relation to investigations conducted in connection with article 85 or 86 of the treaty establishing the European Community; to amend the Fair Trading Act of 1973 in relation to information which may be required in connection with investigations under that Act; to make provision with respect to the meaning of supply of services in the Fair Trading Act of 1973 and for connected purposes” . In a nutshell, we can classify the Competition Act of 1998 as a barrier for small businesses or those who do not have the upper hand when it comes to market share and position, against those who are in a dominant market position, which would most likely be the monopolists and the oligopolists. The long title of the act actually says everything and should speak for itself but basically, the act has two chapters: chapter 1 is all about



the prohibitions on corporate practices that restrict, distort, or prevent competition while chapter 2 is all about the abuse of a dominant market position (e. g. excessive pricing, supply refusal, price discrimination, predatory pricing, vertical restraints).

In the case, the companies that sell football merchandises under a price fixing agreement clearly violated the provisions in the 2nd chapter of the Competition Act of 1998. They used the refusal to supply scheme and other vertical restraints to threaten other sellers and pressure them to keep the price-fixing scheme intact.

### **Suggest factors that might explain the differing fines imposed on the cartel members**

As in the case, the members of the cartel who imposed the price fixing scheme on football merchandises did not receive the same sanctions which in the case were in the form of turnover fines. JJB Sports plc. faced an 8. 873 million Euro fine—the largest among the group, Umbro Holdings Ltd., 6. 614 million; Manchester United plc., 1. 1652 million; All sports Ltd., 1. 350 million; Black Leisure Group plc., 0. 197 million; Football Association Ltd., 0. 158 million; Sports Soccer Ltd., 0. 123 million; The John David Group plc., 0. 073 million; Sports Connection, 0. 020 million, all in euros. There were some that were able to comply with the conditions of leniency and had the final penalty reduced to zero such as the Sportsetail Ltd. The difference in sanctions is determined by the results of the investigations. Factors such as the extent of abuse of market dominance, the number of violations, and duration of the violation, and perpetration of conspiracies all come into play during the determination of the amount of penalties that will be imposed on the

violators. Based on the size of penalties in the case, it appears that the JJB Sports plc. was the most abusive of all and may well be the initiator of the price fixing ring while those who were sentenced to pay the smallest fines and those which were granted leniency would appear to have just been dragged into the price fixing ring because of the threats and pressure such as the refusal to supply (which was clearly mentioned in the case), and other violations on the Competition Act of 1998.

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