ECON 4820 Strategic Competition - Spring 2016

Seminar Set 3 - Wed. 2 March

Question 1.

Exercise 7.3 from Tirole's book.

Question 2. (based on an exam question from 2004)

Competition authorities often base their assessments of competition in a market under scrutiny on the degree of concentration in the market – for example as measured by the Herfindahl index of market concentration – the idea being that there is a relationship between concentration and competition. Discuss the merits of this approach.

Question 3. (modification of an exam question from 2006)

(1) Present a model of duopoly with identical firms where, in the unique equilibrium, price equals marginal cost. Explain why this is so.

(2) What would be the outcome in the above model if firms had different technologies and therefore different costs?

(3) When we set out to study a particular industry, we need to make a choice whether to assume price competition or quantity competition. Discuss features of the industry that could come into consideration in this modelling choice.