



16: Government intervention

- 1 (a) Oligopoly implies that a few firms supply a large proportion of the market. Therefore, the firms are interdependent – the actions of one firm affect the other firms.
To avoid price-cutting wars, there is an incentive for firms to collude e.g. by forming a cartel.

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(b) Analysis

A cartel occurs when a group of firms agree to act together e.g. by restricting supply and raising prices.

Therefore a cartel acts like a monopoly – could illustrate with a monopoly diagram showing supernormal profits being made.

Or could illustrate using game theory and simple matrix.

Example from extract – 5 companies that colluded over refurbishment of offices.

Evaluation:

Cartels may not work if a major supplier refuses to join it or if it 'cheats' by supplying at below the agreed price.

The market may change e.g. fall in demand which will make it difficult to maintain the cartel.

[12]

(c) Analysis

- Firms have an incentive to keep agreement secret because of the prospect of higher profits
- May be difficult to uncover the cartel if there is a tacit, unwritten agreement
- The customers may be unaware that a cartel is operating so would not for the competition authorities

Evaluation:

- A whistle-blower would escape fines if it brought the cartel to the attention of the CMA e.g. JLL
- Disincentives to form a cartel e.g. fine up to 10% of global turnover; possibility of prison for directors

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