OLIGOPOLY, TARIFFS, CRIME, AND VOTING pdf

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Oligopoly refers to a market with "few sellers". Oligopolies interact among themselves. When an oligopolist changes a price, it must take into account how other firms in the industry will respond. Within an oligopoly, the products can be similar or differentiated. Oligopoly markets have high barriers to entry. Suppose that the police believe Dave and Henry have committed a felony, but the evidence is weak. The police have placed Dave and Henry in jail, in separate cells. The police need the confession of at least one of the prisoners in order to get a felony conviction. If neither prisoner confesses, then the police can only convict them on a minor charge with a three-month prison term. Each prisoner is offered the following deal: If both confess, then each will receive a five-year jail term. To sum up the situation: The optimum result for the two together is to stay silent, in which Dave and Henry will each get only three months prison time. However, each prisoner does not have knowledge of what the other prisoner will do. The most rational response from the individual is to confess. If the other prisoner stays silent, then that person gets off free; if the other prisoner confesses, then the prison term will be less five years vs. A similar situation occurs with oligopolies. If firms within an oligopolistic industry have cooperation and trust with each other, then they can theoretically maximize industry profits by setting a monopolistic price. Firms would then have to figure out how to fairly divide up the profits. Without collusion, firms will lower prices to attract more customers. Gradually, the price and output will move to Pb and Qb, which is identical to what would be achieved with a competitive market. Oligopolist Profit Maximization Oligopolies have strong incentives to collude because while acting together, they can restrict output and set prices so that economic profits are earned. By secretly lowering prices, the firm can sell to customers who would not buy at the higher price, as well as to customers who normally buy from the other firms. Oligopolistic agreements tend to be unstable due to these conflicting tendencies. Obstacles to collusion within oligopolies include: Low Entry Barriers - Particularly as time goes on, more firms will be attracted to the potential economic profits, which will not be sustainable. The market share of OPEC producers was drastically reduced and they had to reduce prices in order to gain market share. In the long run, cartels are not usually successful at raising prices. Antitrust Laws - these laws prohibit collusion. Although firms may make secret agreements, those agreements will not be enforceable in a court of law. Unstable Demand Conditions - These conditions will make collusion more difficult, as firms are more likely to have disagreements as to what is the best direction for the industry. Some may expect large increases in demand, while others may disagree and prefer that industry capacity remains the same. Increasing Number of Firms - An increasing number of firms in an oligopolistic industry will make agreements harder to discuss, negotiate and enforce. Differences of opinion are more likely. As the number of firms in the industry increases, the industry will behave more like a competitive market. Difficulties with Detecting and Stopping Price Cuts - These difficulties will undermine effective collusion. Sometimes oligopolistic firms will cheat by enacting quality improvements, easier credit terms and free shipping. If quality changes can be used to compete, collusive price agreements will not be effective.

Strategy An Introduction to Game Theory. Oligopoly, Tariffs, Crime, and Voting 11) Mixed-Strategy Nash Equilibrium 12) Strictly Competitive Games and Security.

It was another example of a moderate Schwar- zenegger versus a right-wing McClintock Republican. Conservative and die-hard Republican voters favored McClintock. However, much of the Repub- lican party feared that a Republican vote split between Schwarzenegger and McClintock would propel Lieutenant Governor Cruz Bustamante, the focal liberal candidate, into the governorship. In essence, the Republican leadership asked conser- vative Republicans to vote for their second-favorite candidate as their only hope of securing a Republican governor. Suppose that Davis is recalled and that there are three candidates to replace him: Bustamante, Schwar- zenegger, and McClintock. The candidates have no actions in the game. Suppose there are three voting blocks: For simplicity, assume that each voting block behaves as a single player, so we have a three-player game. Simultaneously and independently, players L, M, and C select single candidates. The candidate who obtains the most votes wins the election. If two or three of the players vote for the same candidate, then this candidate wins. The general preferences of the voters are shown in Figure Suppose that each voter cares both about whom she votes for and about who wins the election. On the first component, the voter gets 2 if she votes for her most preferred candidate, 1 if she votes for her second choice, and 0 if she votes for her least preferred candidate. On the second component, the voter gets 4 if her most preferred candidate wins, 2 if her second choice wins, and 0 if her least preferred candidate wins the election. For example, if player M votes for Schwarzenegger yet Bustamante wins, then player M gets a payoff of 4 that is, 2 from voting for her favorite candidate, plus 2 for her second favorite winning the election. In the voting game, it is not rational for each player to vote for his most preferred candidate. In particular, the strategy profile Bustamante, Schwar- zenegger, McClintock is not a Nash equilibrium of the game. From this profile, which implies victory for Bustamante, player C can strictly gain by deviating to vote for Schwarzenegger. The switch to Schwarzenegger changes the outcome of the race now won by Schwarzenegger , and player C gains more from the outcome change from 0 to 2 than she loses by voting for her second choice from 2 to 1. The endorsement helped convince conservatives to vote for Schwarzenegger figure Note that the strategy profile Bustamante, Schwarzenegger, Schwarzenegger is a Nash equilibrium of the game. With this strategy profile, player M is voting for and getting her most preferred candidate and therefore has no incentive to deviate. Player L cannot change the outcome of the election by switching his vote, so he rationally selects Bustamante. Finally, if player C switched to Bustamante, then Bustamante would be elected and player C would get zero; alternatively, if player C switched to McClintock, then Bustamante would win and player C would obtain a payoff of just 2. By voting for Schwarzenegger, player C obtains 3, and this is the best player C can do. Consider a market with ten firms. Simultaneously and independently, the firms choose between locating downtown and locating in the suburbs. The profit of each firm is influenced by the number of other firms that locate in the same area. In equilibrium, how many firms locate in each region and what is the profit of each? The same is true for the downtown region when the number of firms locating there exceeds three. Thus, intuition suggests that equilibrium will not feature the vast majority of firms congregating in one or the other region, but instead will have the firms dividing between the regions. Another way to think about this is that in equilibrium, the value of locating downtown will be roughly the same as the value of locating in the suburbs. If, for instance, the value of locating in the suburbs were much higher than that of locat- ing downtown, then a firm that was planning to locate downtown would strictly gain by switching to the strategy of locating in the suburbs. Let us determine the number of firms in each location that would be required to equate the values of the two locations. That is, six firms locate downtown and four locate in the suburbs. Each firm earns a profit of You should verify that no firm would gain by switching locations unilaterally. Consider a more general Cournot model than the one presented in this chap- ter. Suppose there are n firms. The firms simultaneously and independently select quantities to bring to the market.

3: Table of contents for Strategy

Email WASHINGTON -- As a tool of national trade policy, tariffs had long been fading into history, a relic of 19th and early 20th centuries that most experts regarded as mutually harmful to all nations involved. But President Trump has dusted them off in recent months and restored tariffs to a prominent place in his America First approach to the rest of the world. Canadian Prime Minister Justin Trudeau, a generally conciliatory and deferential world leader, called the tariffs "insulting and unacceptable. China has vowed to retaliate with tariffs of its own. Commerce Secretary Wilbur Ross is in China for trade talks. Trump has also asked the U. Commerce Department to look into imposing tariffs on imported cars, trucks and auto parts, arguing that they somehow pose a threat to U. Trump has made trade a key part of his platform on the campaign trail and now, in the White House. Tariffs are a tax on imports. In the United States, tariffs -- also called duties or levies -- are collected by Customs and Border Protection agents at ports of entry across the country. Proceeds go to the Treasury. The tariff rates are published by the U. Raise government revenue and protect domestic industries from foreign competition. Before the establishment of the federal income tax in , tariffs were a big money raiser for the U. From to , for example, they produced 90 percent of federal revenue, according to "Clashing Over Commerce: By contrast, last year tariffs accounted for only about 1 percent of federal revenue. In the fiscal year that ended Sept. Those tariffs are meant to increase the price of imports or to punish foreign countries for committing unfair trade practices, like subsidizing their exporters and dumping their products at unfairly low prices. Trump has accused China of "dumping" things like washing machines in the U. Tariffs discourage imports by making them more expensive. They also reduce competitive pressure on domestic competitors and can allow them to raise prices. Tariffs fell out of favor as global trade expanded after World War II. The global economic is much more interconnected than it once was.

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Strategy also contains compelling discussions of strategic voting, bargaining in legislatures, cheap talk and legislative committees, information aggregation and voting, and the Hotelling-Downs median voter theorem.

A penalty for price discounts Advance notice of price changes Information exchange Examples[edit] Collusion is illegal in the United States , Canada and most of the EU due to antitrust laws, but implicit collusion in the form of price leadership and tacit understandings still takes place. Several examples of collusion in the United States include: Market division and price-fixing among manufacturers of heavy electrical equipment in the s, including General Electric. The sharing of potential contract terms by NBA free agents in an effort to help a targeted franchise circumvent the salary cap. Price fixing within food manufacturers providing cafeteria food to schools and the military in Market division and output determination of livestock feed additive, called lysine , by companies in the US, Japan and South Korea in , Archer Daniels Midland being the most notable of these. There are many ways that implicit collusion tends to develop: The practice of stock analyst conference calls and meetings of industry participants almost necessarily results in tremendous amounts of strategic and price transparency. This allows each firm to see how and why every other firm is pricing their products. If the practice of the industry causes more complicated pricing, which is hard for the consumer to understand such as risk-based pricing , hidden taxes and fees in the wireless industry, negotiable pricing , this can cause competition based on price to be meaningless because it would be too complicated to explain to the customer in a short advertisement. This causes industries to have essentially the same prices and compete on advertising and image, something theoretically as damaging to consumers as normal price fixing. In any given industry, these may include: The number of firms: As the number of firms in an industry increases, it is more difficult to successfully organize, collude and communicate. Cost and demand differences between firms: If costs vary significantly between firms, it may be impossible to establish a price at which to fix output. There is considerable incentive to cheat on collusion agreements; although lowering prices might trigger price wars , in the short term the defecting firm may gain considerably. This phenomenon is frequently referred to as "chiseling". New firms may enter the industry, establishing a new baseline price and eliminating collusion though anti-dumping laws and tariffs can prevent foreign companies entering the market. An increase in average total cost or a decrease in revenue provides incentive to compete with rival firms in order to secure a larger market share and increased demand.

6: Contents | Strategy | W. W. Norton & Company

Contents ix The Third Strategic Tension Congruous Sets Aside: Experimental Game Theory Guided Exercise Exercises 10 OLIGOPOLY, TARIFFS, CRIME, AND VOTING

Find the Nash equilibria of the games in Exercise 1 of Chapter 7. Compute the Nash equilibria of the following location game. There are two people who simultaneously select numbers between zero and one. Suppose player 1 chooses s1 and player 2 chooses s2. Find the Nash equilibrium of the following normal-form game: The solution is interior, so you can use calculus. Consider a game in which, simultaneously, player 1 selects any real number x and player 2 selects any real number y. The payoffs are given by: Consider the normal-form game pictured here: X Y Z A B 2, 0 1, 3 5, 4 1, 3 5, x 6, 2 2 1 All of the payoff numbers are specified, with the exception of that denoted by x. Find a number for x such that the following three statements are all true: Consider the nine-region location game presented in Chapter 8, where two vendors simultaneously choose locations and then customers walk to the nearest vendor to purchase a single unit. Assume that there are ten custom- ers in each region. Suppose that, unlike in the standard model, each custom- er is only willing to walk up to two regions away. For example, customers in region 1 are willing to walk to regions 2 or 3 to purchase a unit, but they will not travel to any higher-numbered regions. Consider a two-player game with the following strategy spaces: If so, what are they? Is the following statement true or false? If it is true, explain why. If it is false, provide a game that illustrates that it is false. This exercise asks you to consider what happens when players choose their actions by a simple rule of thumb instead of by reasoning. Suppose that two players play a specific finite simultaneous-move game many times. The first time the game is played, each player selects a pure strategy at random. At all subsequent times at which the game is played, however, each player i plays a best response to the pure strategy actually chosen by the other player the previous time the game was played. Explain what will happen over time. In the long run, as the game is played over and over, does play always settle down to a Nash equilibrium? What will be played in the future? Explain how the assumption of a strict Nash equilibrium, rather than a nonstrict Nash equilibrium, makes a difference here. Is it possible that this strategy would be played in the long run? Explain why or why not. Consider the following n-player game. Simultaneously and independently, the players each select either X, Y, or Z. The payoffs are defined as follows. Each player who selects X obtains a payoff equal to g, where g is the num- ber of players who select Z. Each player who selects Y obtains a payoff of 2a, where a is the number of players who select X. Each player who selects Z obtains a payoff of 3b, where b is the number of players who select Y. Represent this game in the normal form by drawing the appropriate matrix. If so, describe it. Does this game have a Nash equilibrium? If so, describe an equilibrium and explain how many Nash equilibria there are. Heather and David players 1 and 2 are partners in a handmade postcard business. They each put costly effort into the business, which then deter- mines their profits. However, unless they each exert at least 1 unit of effort, there are no revenues at all. Suppose you know the following for a particular three-player game: The space of strategy profiles S is finite. Almost every modern social scientist who has dabbled with formal models has called on, or at least argued about, the concept. Nash equilibrium also lies at the heart of more sophisticated concepts of congruity, including most of those discussed in the remainder of this book. The examples will give you some practice in computation of equilibria.

7: Tariffs, Vertical Oligopoly, and Market Structure

The perfect balance of readability and formalism. Joel Watson has refined his successful text to make it even more student-friendly. A number of sections have been added, and numerous chapters have been substantially revised. Dozens of new exercises have been added, along with solutions to selected.

8: Collusion - Wikipedia

Oligopoly, Tariffs, Crime, and Voting Suppose n students are on a committee to decide the fraction of student fees to spend on student activities. The minimum fraction they can select is 0, and the maximum fraction is 1.

9: Strategy | W. W. Norton & Company

A tariff is a tax on imports, and a quota limits the quantity of a good that can be imported into a country Game theory The study of how people make decisions in situations in which attaining their goals depends on their interactions with others; in economics, the study of the decisions of firms in industries where the profits of a firm depend.

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