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Oligopoly Market:

Meaning:

Oligopoly is a market structure with a small number of firms, none of which can keep the other from having significant influence. The concentration ratio measures the market share of the largest firms. A monopoly is one firm, duopoly is two firms and oligopoly is two or more firms

It is a form of the market in which there are a few big firms and a large number of buyers of a commodity. Each firm has a significant share of the market Price and output decision of one firm significantly impacts the price and output decision of the rival firms in the market. Accordingly there is a high degree of interdependence among the competing firm, price and output policy of one firm depends on the price on the price and output policy of others. This type of competition (involving high degree of Interdependence) is called 'cut throat competition'

Example. There are only a few car-producers in the Indian Auto market Toyota, Ford GM, Audi, BMW and Volkswagen are some well known brands. Each one is capturing a significant share of the Auto market. Price and output decisions of each producer (like Toyota) significantly impacts the price and output decisions of the other producers.

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Features of Oligopoly:

① **Small Number of Big Firms:**

Oligopoly market is the one in which there is small numbers of big firms. A firm enjoy partial control over price through brand loyalty. Brand loyalty is achieved through heavy advertisement. However full control (over price) is not possible as there are competitors in the market.

② **High Degree of Interdependence:**

Oligopoly market is characterised by a small number of big firm in the industry. The market share of each firm is so significant that its price and output policy leaves a significant impact on the price and output policy of the rival firm. So that, there is a very high-degree of interdependence among the competing firm with regard to their price and output policy. Price and output behaviour of one firm often leads to reaction by other firms in the firm in the market. Thus a producers firm may not be willing to raise price of the product fearing that the rival firms might not raise it, and the buyers would shift to the rivals. This kind of interdependence makes it very difficult to specify and precise relationship between price and demand. It is precisely because of this reason that it has not been possible to to developed a theory that explain how an oligopolist achieves an equilibrium.

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(3) Formation of Cartels:

With a view to avoiding competition, oligopoly firms often form cartels. A cartel is a formal agreement among the firms to avoid competition. It is sort of collusion of the competing firm, but against competition. Therefore, it is often called collusive oligopoly. Output and price are fixed by different firms as a group.

Leading firm in the market is accepted by the cartel as a 'price Leader'. All firm in the cartel accept the price as set by the price leader.

(5) Entry Barriers:

There are barriers to the entry of new firms. These are created largely through patent rights. Because of these barriers, the existing firms are not much worried about the entry of new firms in the market.

(6) Non-price Competition:

Under oligopoly, firms tend to avoid price competition. Instead, they focus on non-price competition. Example In India both Coke and Pepsi sell their product at the same price. But in order to increase its share of the market, each firm adopts the policy of aggressive non-price competition. Coke and Pepsi sponsor different games and sports, they also offer lucrative schemes.