Overview: Collusion and Competition in Oligopolistic Markets

- General Electric vs. Westinghouse
  - The competitive situation in 1963
  - Strategy consultant: recommendation
  - What GE did
  - Westinghouse consultant: recommendation
  - What Westinghouse did
  - Consent decree
- Cartels

The Turbine Generator Business

- The product?
- The players?
- The purchasing process?
- History of competition & pricing
Industry Attractiveness
Consultant’s Recommendations

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GE Response: New Price Policy


GE Response: Continued


Why a Price Book?

- Facilitation of pricing for complex array of related products
- Steel and basing point pricing
- Airline attempts
Westinghouse Response

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Consent Decree

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A New Era for Anti-Trust

“The prototype price-fixing deal calls for competitors to gather in a smoke-filled room. But last week the Justice Department chalked up its first significant victory against a pricing arrangement so indirect that the supposed conspirators never even met.”

-- Business Week, December 1976
Cartels

- What is a cartel?

- What’s conducive to cartel formation?
  - Homogeneous products. Why?
    - Cartels often arise after “destructive competition.”
  - Inelastic demand
  - High entry barriers
  - No Legal Impediments.
    - International business

Examples of Cartels

- Oil (OPEC)
- Uranium
- Diamonds (DeBeers)
- Government Supported Cartels
Understanding Cartels

Pinpoint the essentials:

• Agreement - How, where, etc.?

• Monitoring - How is it done?

• Enforcement - What is the threat to cheaters?

OPEC: Basic Analysis

• Agreement?
  – Open meetings among members
  – Production quotas set

• Monitoring?
  – OPEC monitors imports(exports, prices

• Enforcement
  – Threat to cheaters? Saudis will flood market.

• Ongoing Issues
  – External (non OPEC suppliers)
  – Internal - Domestic financing of OPEC members
What are the Most Visible Cartels in the United States?

Hints:
• Exempt from Antitrust
• There is a section of (almost) every daily newspaper devoted to them
Take Away Points

• Successful Collusion requires three elements: Agreement, Monitoring, Enforcement.
• Again: credibility, commitment, and the ability to understand your opponent are key aspects of strategic interaction.
• "Price protection/Most favored nation" clauses may actually limit competition.