

Oligopoly Strategy

Class Activity

DIRECTIONS

Assemble into groups of four. Each person is the CEO of one of the major cereal producers in the U.S.: Kellogg's, General Mills, Post, and Quaker Oats. Each CEO will individually decide how many boxes of cereal his/her firm will produce each day. You may either produce 3 million or 4 million. The quantity demanded at various prices is listed to the right. You will make this output decision 10 times, corresponding to 10 rounds. Any CEO who can collect at least \$150 million in revenue will receive a prize.

Price (per box of cereal)	Quantity Demanded (millions of boxes)
\$5.00	12
\$4.50	13
\$4.00	14
\$3.50	15
\$3.00	16

RECORD DATA

After each round record your data in this table. Start by adding together all of the output produced. Use this "Total Output" number to determine the price of each box of cereal (listed in the table above). Then, multiply "Your Individual Output" by this price to get "Your Revenue."

RULES

- 1) No verbal communication about price or output. This would violate antitrust laws.
- 2) Only one Output Card can be chosen each round, and it cannot be changed once it has been shown.
- 3) Count together: "1 - 2 - 3" and then (on 4) display your Output Card.
- 4) Make sure all CEOs are ready before beginning to count.

Round	Total Output	Price	Your Individual Output	Your Revenue (millions)	Your Total Revenue from all Rounds
1		\$		\$	\$
2		\$		\$	
3		\$		\$	
4		\$		\$	
5		\$		\$	
6		\$		\$	
7		\$		\$	
8		\$		\$	
9		\$		\$	
10		\$		\$	

CONCLUSION

Once you have completed all 10 rounds, answer the following questions about your experience.

- 1) What is the maximum total revenue possible each round for the industry as a whole?

- 2) What is the minimum total revenue possible each round for the industry as a whole?

- 3) Was there an incentive for each CEO to limit output to 3 million boxes each round? Explain.

- 4) Was there an incentive for each CEO to cheat and produce 4 million boxes each round? Explain.

- 5) If you were a monopolist instead of an oligopolist in this market, how many boxes would you produce each round? Explain.

- 6) Did the other CEOs in your group generally act cooperatively, or did they mostly cheat? Explain.

- 7) Why do you think oligopolists behave in this way?

- 8) Oligopolies are generally regarded to be very unpredictable. Why do you think this is the case?