Oligopoly - R & U - Reason-Based Questions

Q.1. Firm's demand curve under oligopoly is indeterminate.

Ans. True. Firm's demand curve under oligopoly is indeterminate because there is high degree of interdependence among the firms in the oligopoly market. Price and output policy of one firm significantly depends upon the price and output policy of the rival firms in the market.

Q.2. Under oligopoly, firms focus on price competition.

Ans. False. Under oligopoly, firms focus on non-price competition because they tend to avoid price competition.

Q.3. In order to maximise profit, collusion is preferred to competition under oligopoly.

Ans. True. In order to maximise profit, collusion is preferred to competition, because competition often leads to a cut in price while collusion does not.

Q.4. Cartels are formed to control market supply, not price of the product.

Ans. False. Cartels are formed to control both supply as well as price of the product. In fact, price is sought to be raised by restricting the supply of the product in the market.

Q.5. Oligopoly firms always remain few in number.

Ans. True. It is because oligopoly firms are large scale firms, requiring:

- **i.** huge investment,
- **ii.** using complex technology, and
- **iii.** incurring huge advertisement costs.

All these features act as a deterrent for the new firms to enter the industry. Entry of the new firms becomes difficult also because the existing firms tend to form trusts and cartels, and often acquire patent rights of their product and technology.