OLIGOPOLISTIC PRICING TO EXCLUDE NEW ENTRANTS

"BARRIERS TO ENTRY"

ATC = Average Total Cost

A cost advantage of existing firms over potential new entrants

\[ P_M = \text{"Joint-Maximizing" price of oligopolists, determined by MR = MC (output = Q_m)} \]

\[ P_L = \text{Price = Minimum cost for any potential entrant} \]

\[ \text{Price at } P_L \text{ or below: strategic decision for oligopolists’ output = } Q_L \]

'Suppose that the marginal revenue and marginal costs curves are such that the joint profit-maximizing price is \( P_M \). Existing firms may be better off in the long run if they price at \( P_L \) and supply the quantity \( Q_L \), rather than setting the price at \( P_M \) and supplying quantity \( Q_M \). The reason is that \( P_M \) may induce entry, thus shifting the demand curves of the existing firms to the left and in this way reducing their earnings.... In general, the greater the barrier to entry, the closer is the limit price to the joint profit-maximizing price.'