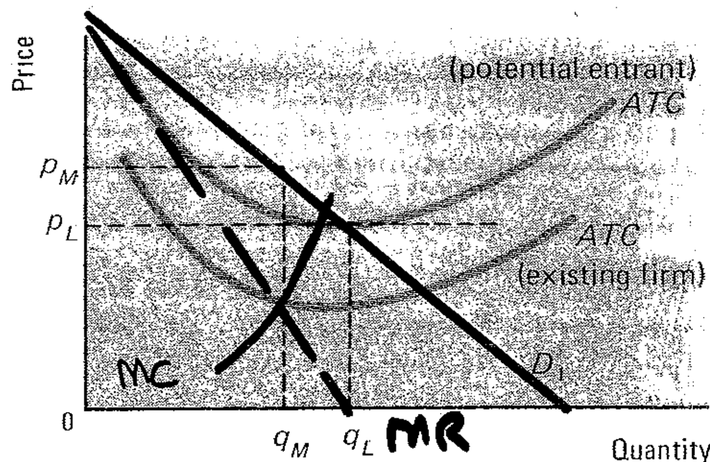
OLIGOPOLISTIC PRICING TO EXCLUDE NEW ENTRANTS

"BARRIERS TO ENTRY"

ATC = Average Total Cost



A cost advantage of existing firms over potential new entrants

P_M = "Joint-Maximizing" price of oligopolists, determined by MR = MC (output = Q_m)

P_L = Price = Minimum cost for any potential entrant

Price at P_L 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.'

Source: Richard Lipsey, *An Introduction to Positive Economics*, 4th edn. (London, 1975), p. 287.