

Let's Play OLIGOP

Wesleyan University
Middletown,

OLIGOP is a game in which money can be made or lost. It is played by groups of up to seven firms on a personal computer.

Your firm competes actively in an oligopolistic market characterized by product differentiation. Many products, ranging from beer to automobiles, are marketed by oligopolists. How many cars Ford sells depends only in part upon the price it charges --- the higher the price set by Chevrolet and Chrysler for their products the better the market for Fords. Similarly, when you play OLIGOP your sales volume depends not only on your price but also on the prices charged by your competitors.0 Your profits depend upon your production costs as well as your sales revenue. The nature of your production costs will be specified at the beginning of play. For example, the computer may tell you that you have fixed costs of \$25 plus variable costs of \$1.00 per unit. This would mean that if you sell 10 units your total production costs will be

$$\$25 + 10 \times \$1.00 = \$35.00.$$

If you have priced your product at \$4.00 your revenue will be

$$\$4.00 \times 10 = \$40.00$$

and your profits, the excess of revenue over total costs, will be

$$\$40.00 - \$35.00 = \$5.00$$

Up to seven firms can compete in the market. You can ask the computer to generate prices if you wish to try your pricing skills and can't find enough live players willing to compete. Can you make higher profits than the other firms in the industry?

After a few rounds you will be invited to study a Market Research Report. This analysis, prepared by skilled econometricians, reports the set of prices that you and your competitors should charge in order to maximize total industry profits. Can an aggressively managed firm do even better?

You may decide to replace your old product with a new innovation developed in your corporate laboratory --- use the I (innovate) option. The product number you specify will influence both costs and market response. If you are fortunate, your new product will be cheap to produce and command a substantial share of the market.