(A) Collusive Oligopoly Model: Cartel

Cartels imply direct (formal or informal) agreements among the competing oligopolists. Firms appoint a central agency (for example: OPEC) to which they delegate the authority to decide the total quantity and the price at which it must be sold so as to attain maximum profit.

OPEC members meet regularly to decide how much oil each member of cartel will be allowed to produce. The reasons are two-fold:

1. If each firm in oligopoly sells homogeneous product like oil then demand curve that each firm faces will be horizontal at market price like a perfectly competitive market.
2. If oil producing firms form a cartel like OPEC to determine their output and price they will jointly face a downward sloping demand curve just like a monopolist.

Advantages of Cartel:

1. It avoids price war among rivals
2. To maximize joint profit
3. Joint profits are higher than total profits earned by them if they were to work independently.

Two most common types of cartels:

1. **Joint Profit Maximization Cartel under Perfect Collusion:**

   i) Firms producing homogeneous product form a cartel
   ii) Cartel or central board takes decisions about how much price to charge, how much quantity to sell & how much industry profit to distribute.
   iii) Central board acts like a single monopoly whose aim is to maximize joint profit

2. **Market-Sharing Cartel:**

i)Non-Price Competition Cartel: low cost firm sells product at low prices & high cost firms sells product at higher prices. They agree upon a common price below which they will not sell. The firms can compete with one another on a non-price basis by varying the colour, design, shape, packaging, advertisement etc.

ii)**Market Sharing by Quota Agreement:** agreements relates to sharing of market equally among member firms so that each firm gets profits on its sales.