

Experimental Research Results on Collusion

Recent experimental research has provided a number of examples where two firms are able to arrive at a stable, collusive outcome but three or more firms are unable to do so. Recently Richard Beil isolated an important factor that explains this phenomenon. In experimental duopoly markets, firms could send firm-specific punishments to their rivals for deviating, but in experimental quadopoly markets, firms could not inflict firm-specific punishments. Beil's experiments revealed the following interesting results. When monitoring was available but specific penalties were unavailable, 5 out of 11 duopoly pairs were able to reach a collusive solution, whereas none of the

20 quadopoly groups were able to do so. In contrast, when firm-specific penalties were allowed, 21 out of 45 quadopoly groups were able to achieve a tacit collusive solution.

In summary, recent experimental evidence suggests that when firms can monitor their rivals and punish specific firms for failing to collude, they are much more likely to achieve a tacit collusive agreement than when these types of punishment mechanisms are unavailable.

Source: Richard Beil, "Collusion and the Need of Punishments: An Experimental Examination," working paper, Auburn University, 1992.