THE ECONOMY TODAY 13e

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YouTube READY

YouTube Title: "funny pepsi commercial" http://www.youtube.com/watch?v=31pEZWaIhr0
Video Length: 0:32 seconds

Chapter 25: Oligopoly, p. 559
Topic: Oligopoly vs Competition, p. 571
Key Terms: Oligopoly, market structure
Learning Objective 5: How interdependence affects oligopolists' pricing decisions.

Summary

This video shows a boy who cannot reach the Pepsi button on a vending machine, so he buys two cokes, places them on the ground, and finally steps on the coke cans so he can reach his soft drink of choice – Pepsi. The boy leaves the two cokes on the ground, and walks away with the can of Pepsi.

Economic Application

In oligopoly, several firms control the market. Pepsi and Coca Cola are an example of oligopoly in the cola market with 75% market share. They realize that competing on price is a no-win strategy, so they use clever advertising to lure customers away from each other.

Multiple-Choice Question

Oligopolistic competitors:

a) Compete by reducing prices.
b) Have a mutual interest in higher prices and profits.
c) Maximize profit where marginal cost equals price.
d) Have no power to alter the market price of the good they sell.

Discussion Question

High profits enjoyed by Coke and Pepsi provide a strong incentive for rivals to enter the market. How do they prevent other firms from expanding market supplies?