The Bertrand Model

- Demand function is as shown.
- Firm with lowest bid gets all the market.
- In case of tie, firms split market.

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The Winning Bid is zero. To see why, suppose one firm bids $1. If the other firm bids 99¢, it gets it all.
Implications

• It only takes two firms to get the competitive price.

When to use the Bertrand Model

• Suppose two firms are bidding on a project. The winner will get the entire project.

Two Models

• Cournot
• Bertrand
• When do we use each one?

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When to use the Bertrand Model

• Suppose two firms are bidding on a project. The winner will get the entire project.
• Two firms are trying to dominate a market. Each has sufficient manufacturing capacity to make all the product. Low bidder gets the business.
• Two firms are trying to dominate a market, but one of the firms cannot produce enough to satisfy all the demand. This is not a Bertrand Duopoly.