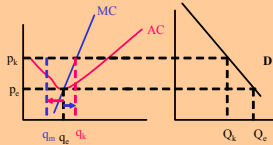


Cartels



What is a Cartel

- A Cartel is an organization by firms to set output and prices.

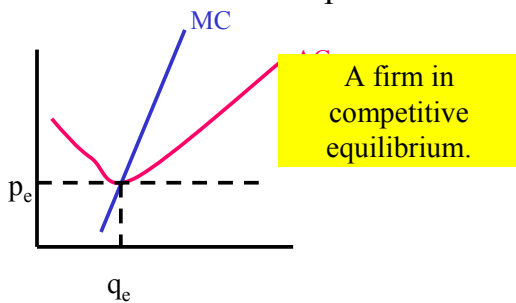
Why a Cartel

- A Cartel is an organization by firms to set output and prices.
- If the firms can agree to reduce output and are successful in excluding competitors, they can increase total industry profits.

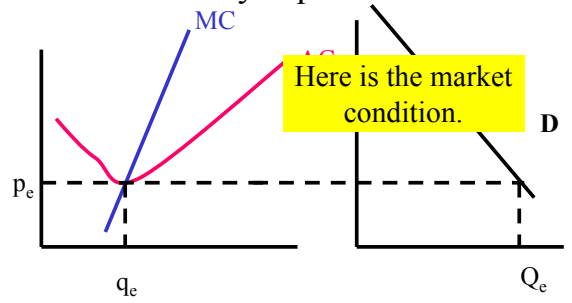
Difficulties

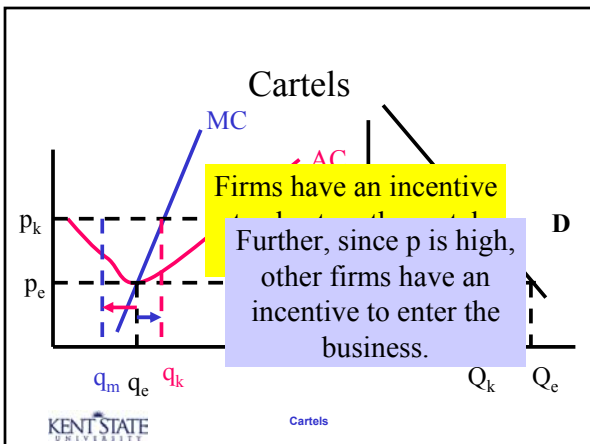
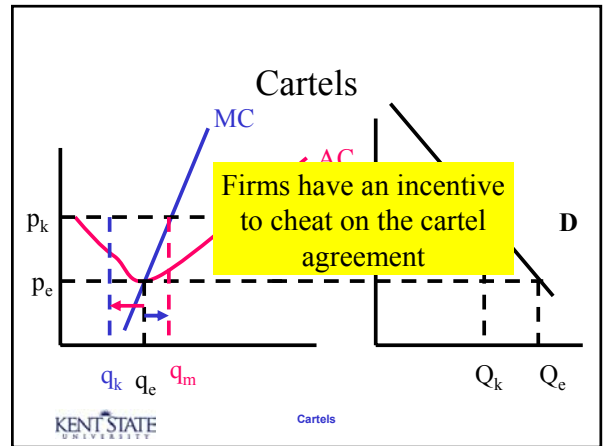
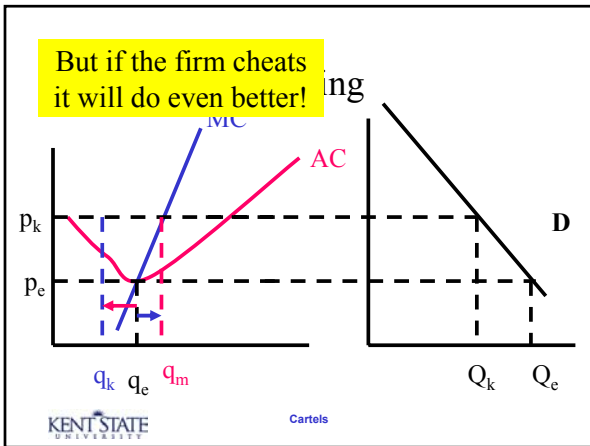
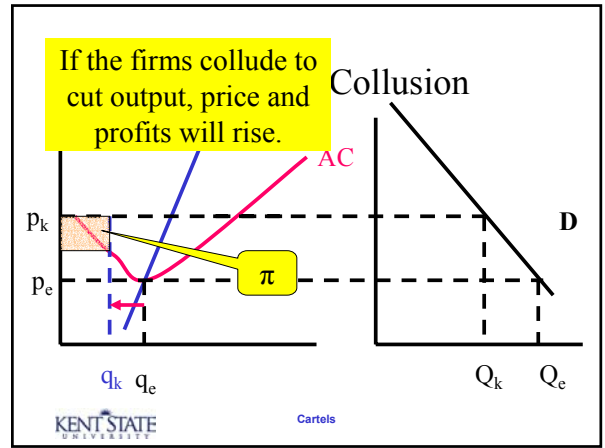
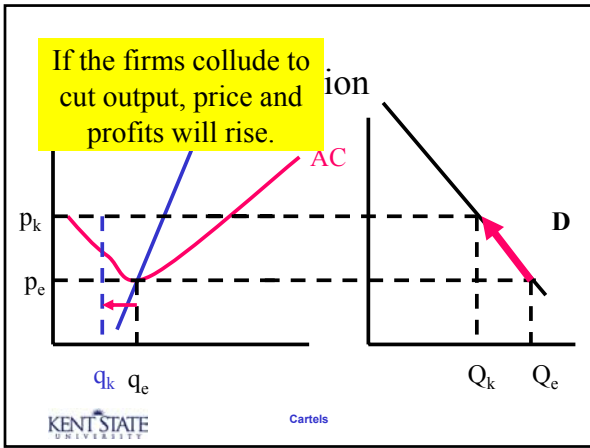
- A Cartel is an organization by firms to set output and prices.
- If the firms can agree to reduce output and are successful in excluding competitors, they can increase total industry profits.
- The problems are obvious.
 - Firms want to cheat
 - Firms want to enter.

The Graph



Industry Equilibrium





Anti-Trust Law

- Cartels are *per se* violations of the Sherman Act.

KENT STATE UNIVERSITY Cartels

Anti-Trust Law

- Cartels are *per se* violations of the Sherman Act.
- You cannot enter into written contracts to enforce a cartel.

Anti-Trust Law

- Cartels are *per se* violations of the Sherman Act.
- You cannot enter into written contracts to enforce a cartel.
- This makes it hard to enforce cartels

Smith and Wilson

- Smith Hardware and Wilson Hardware agree to form a cartel.

No Honor Among Thieves

- Smith Hardware and Wilson Hardware agree to form a cartel.
- Each one still has the incentive to cheat.

Anti-Trust Law

- Smith Hardware and Wilson Hardware agree to form a cartel.
- Each one still has the incentive to cheat.
 - Without a written agreement, how do you tell if cheating is an honest misunderstanding or deliberate cheating?

Entry

- Smith Hardware and Wilson Hardware agree to form a cartel.
- Each one still has the incentive to cheat.
- And how do you prevent Home Depot from opening?

The Cali Cartel

- Drug Cartels are well known
- They solve the problem of cheating with violence.

End

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