

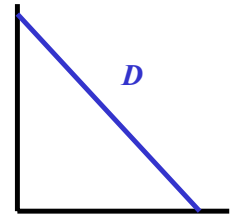
The Bertrand Model



J. F. Bertrand
Lectures in Microeconomics-Charles W. Upton

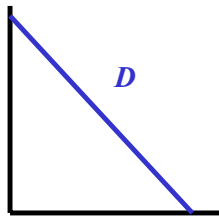
The Bertrand Model

- Demand function is as shown.



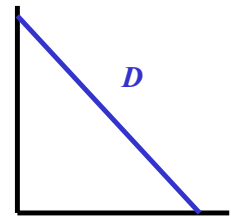
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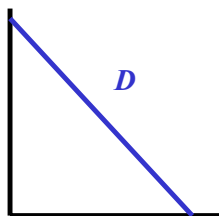
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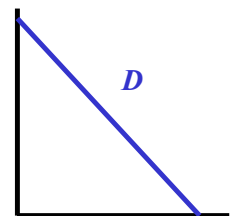
The Bertrand Model

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- In case of tie, firms split market
- $MC = 0$



The Bertrand Model

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?

When to use the Bertrand Model

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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.*

End

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