What is Oligopoly?

Worksheet

An oligopoly is a market dominated by a few large firms that control most of the industry's output. Barriers to entry are high, and firms often behave interdependently.

Questions

1. Which is an oligopoly?

A) 100 wheat farmers
B) 4 cereal brands controlling 80% of sales
C) Millions of apps in an app store
D) 10 local bakeries in a city

2. Oligopolists are interdependent. What does this mean?

A) They help each other equally
B) Each firm's strategy affects others, so they watch each other
C) They all charge the same price
D) They never compete

3. Why are entry barriers high in oligopolies?

A) Governments ban newcomers
B) Huge capital, patents, brand loyalty, and economies of scale
C) Oligopolists are nice
D) Consumers refuse new brands

4. Price leadership in oligopoly means…

A) One firm sets price, others follow
B) All firms agree to same price
C) Prices fall to zero
D) Consumers set prices

5. The car industry in the US is dominated by Ford, GM, Tesla, and a few others. Is this an oligopoly?

6. Airlines like United, American, and Delta control US domestic flights. What market structure is this?

7. A small town has 50 restaurants, none dominant. Is this an oligopoly?

8. Define: What is an oligopoly?

9. Define: How many firms in an oligopoly?

10. Define: Real-world oligopoly example?

Answer Key

1. B) 4 cereal brands controlling 80% of sales — Option B: A few firms (4) controlling most of the market (80%) is oligopoly.
2. B) Each firm's strategy affects others, so they watch each other — Interdependence: one firm's price cut forces rivals to respond. Choices affect each other.
3. B) Huge capital, patents, brand loyalty, and economies of scale — Billions needed for factories, tech, and brand recognition make starting up nearly impossible.
4. A) One firm sets price, others follow — The dominant firm (e.g., Apple in phones) raises or cuts price, and competitors follow.
5. Check: Few large firms? Yes (3-4 major producers). High barriers to entry? Yes (billions in capital needed). Do they control pricing? Yes (can influence prices). Conclusion: Yes, this is an oligopoly.
6. Few firms? Yes, 3-4 dominate. High entry barriers? Yes (planes, routes, landing slots). Interdependent? Yes, they match each other's prices. This is an oligopoly.
7. Few large firms? No. Low entry barriers? Yes (anyone can open). This is monopolistic competition or perfect competition, NOT oligopoly.
8. A market dominated by a few large firms that control most output and pricing.
9. Typically 3–8 large firms controlling 50–90% of the market.
10. Cars (GM, Ford, Tesla), airlines (United, American, Delta), smartphones (Apple, Samsung).