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Price Leadership and Unequal Market Sharing: Collusion in Experimental Markets☆

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Abstract

We consider experimental markets of repeated homogeneous price-setting duopolies. We investigate the effect on collusion of sequential versus simultaneous price setting. We also examine the effect on collusion of changes in the size of each subject's market share in case both subjects set the same price. Our results show that sequential price setting compared with simultaneous price setting facilitates collusion, if subjects have equal market shares or if the follower has the larger market share. With sequential price setting, we find more collusion if subjects have equal market shares rather than unequal market shares. We observe more collusion if the follower has the larger market share than if the follower has the smaller market share.

Keywords: Collusion, Price Leadership, Asymmetries, Experiment

JEL: C73, C92, L13, L41

1. Introduction

In about one third of the cartel cases prosecuted by the European Commission, the market had a price leader and (several) price followers (Mouraviev and Rey, 2011). Examples include markets for fittings, professional videotape and candle wax (DG Competition, 2006, 2007, 2008). In a recent study, Mouraviev and Rey (2011) theoretically investigate the role of price leadership with regard to (tacit) collusion. They allow for the possibility of unequal market shares in case firms set the same price. They argue that sequential price setting, compared with simultaneous price setting, facilitates collusion by making it easier to punish deviations by the leader, which relaxes the incentive of the leader to deviate. Furthermore, they show that, with sequential price setting, collusion is facilitated if the follower's market share is higher, in case both firms set the same price. In particular, considering a repeated duopoly model with homogeneous goods and sequential price setting, Mouraviev and Rey demonstrate that collusion can be sustained for any discount factor, if the follower's mar-

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