

• PROS of Advertising

↑ Advertising = no effect on MC

- diminish monopoly power
- low-cost means of providing useful info
- efficiency-enhancing (enhances competition)
- speeds up technological process

• CONS of Advertising

- manipulation of customers
- substantial loyalty to brand names ~ some monopoly power
- ad costs = barrier of entry
- self-cancelling (inefficiency)

• game theory (duopoly)

- dominant strategy - what is best regardless of what other player follows
- dominated strategy - one whose outcome depends on the strategy the other player uses
- Nash equilibrium - the combo of strategies that is the best response for a player given the other player's best response
- prisoner's dilemma - incentive to cheat (assuming collusion) when both cheat, both are worse off

• oligopoly: $P > MC$

- in order to sell more, they must lower P and wherever they choose @ PMQ ($P > MR$, $\therefore P > MC$, $MR = MC$)
- $P \neq \min ATC$ -- that would = MC , and $P > MR$, $MC > MR$ would not be @ PMQ

• excess capacity = Q prod. efficient - Q profit maximizing