Do Fewer Firms Find it Easier to Collude? On Numbers Effects in Oligopoly Experiments

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Abstract:

A conventional wisdom in competition policy maintains that fewer firms find it easier to collude. In cartel policy, the conventional wisdom is almost always interpreted as suggesting that there should be more cartels with fewer firms. However, empirical cartel studies fail to observe positive correlation of concentration and cartel frequency. We analyse data from experiments to shed light on this issue. In the laboratory, firms choose whether or not to talk (that is, set up a cartel). If all firms agree to cartelize the industry, then can freely talk but the risk is that a fictitious cartel authority screens the industry with a probability of 15% and firms are penalized if they are caught talking. We find that four-firm markets choose to talk more frequently than duopolies, contradicting the conventional wisdom.