# Oligopoly part II

# Location decisions

A model by Hotelling shows

- There will be a tendency over time for the degree of differentiation to fall
- There is likely to be a convergence in terms of characteristics of the products that are supplied to the market
- The convergence can also be seen in terms of the geographical location of the producers

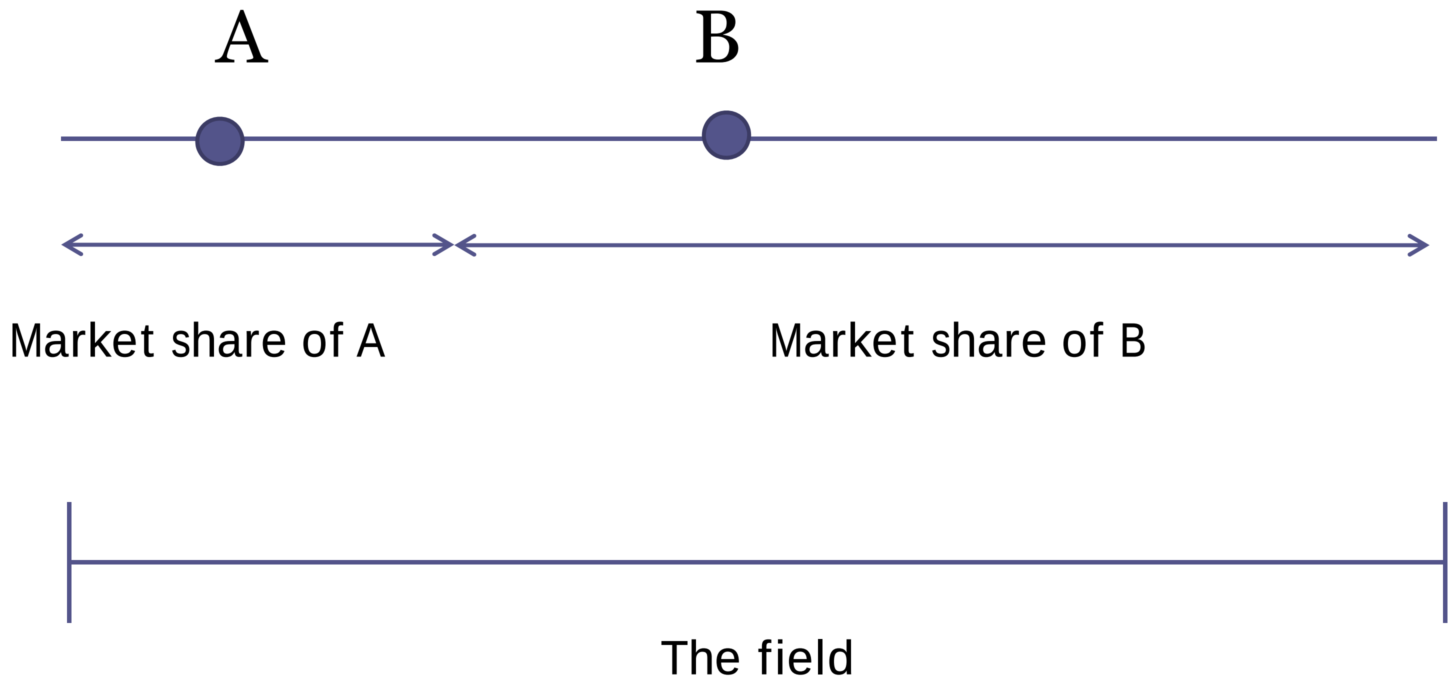
- Assume that there are two vendors A and B and that they locate themselves in the way shown in the following figure

- As the consumers are indifferent between the beer that the vendors are selling and so will make their purchases from the nearest stall,
  - vendor A will receive all of the custom from the people the left of its position and half of that from those to its right

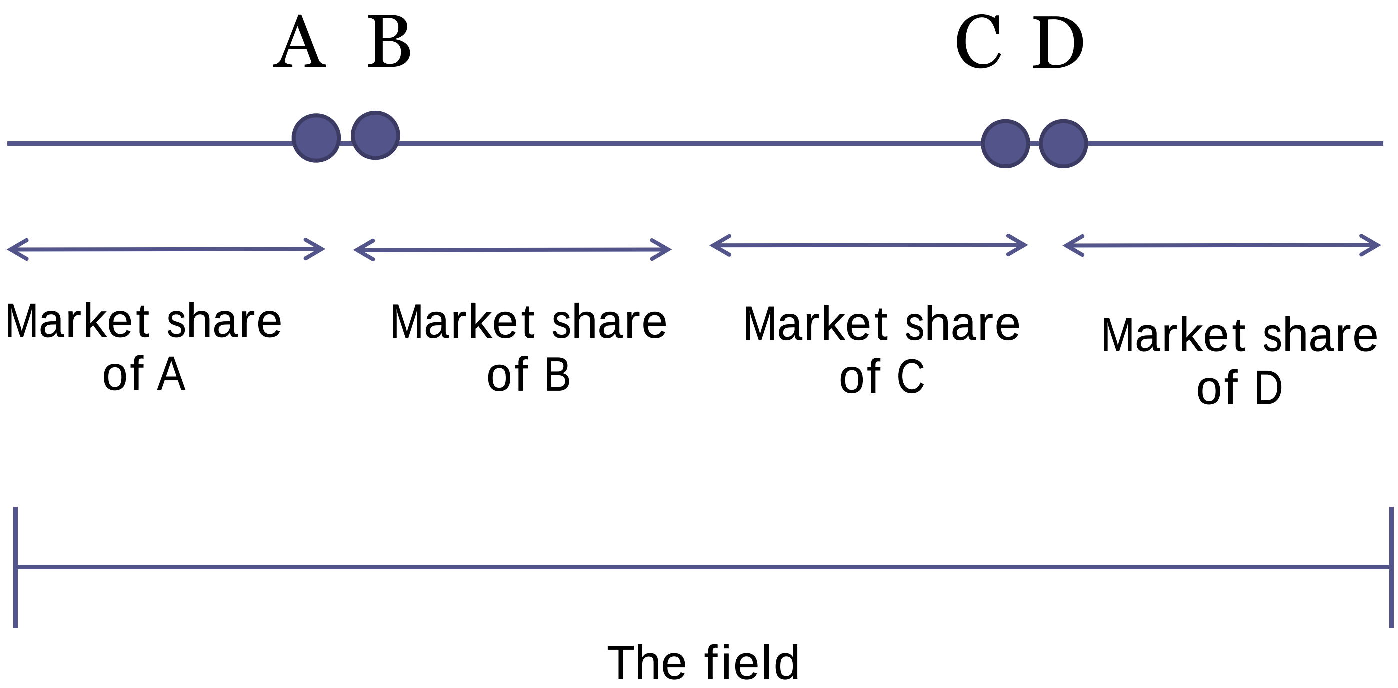
  - Vendor B will receive all of the custom from its right and the remaining half of the custom from its left

  - Vendor B is clearly in the better location

# Hotelling's location model



# Hotelling's location model with four producers



- This model can be applied to an oligopoly in two ways
  - There will be a convergence in the actual geographic location of the producers
  - Implication in terms of the product differentiation that is likely within an oligopoly or indeed within a monopolistically competitive market

# Reference


- Cowie J. (2010). The Economics of Transport. Routledge.