

Farsighted stability of collusive price leadership*

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Abstract

The present paper studies farsighted behavior for firms to form a dominant cartel of the price leadership model by d'Aspremont *et al.* (1983) and stability of the dominant cartel. Our stability concept is von Neumann-Morgenstern stable set according to the indirect dominance relation. While d'Aspremont *et al.* (1983) and Diamantoudi (2005) analyze stability of *cartel size* in the price leadership model, we identify a cartel by its *constituent member*. As a result, we show that any pareto efficient and individual rational cartel is itself a stable set. Our results are mathematical extensions of the results of Suzuki and Muto (2005) who consider farsighted stability of n -person prisoners' dilemma.

JEL classification: C71, D43, L13

Keywords: price leadership model, cartel stability, foresight, stable set

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