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Limit Pricing Oligopoly Market Evidence from Tamilnadu Politics

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ABSTRACT

Limit pricing oligopoly market is a hypothetical market explained with various hypotheses in the literature which has limited scope for the real world economic evidence and its application which leads the impact of the operation of such market is mostly unknown among the policymakers and academics. The available literature evidences are mostly neglected to explore the scope of such markets conditions and failed to direct appropriate policies.

In India among most of the national level parties and in the states levels there are two only have been surviving over the long periods. This trigger the intuition to inquire into answer the questions a) why the political market is appears to be an oligopolistic market? b) How it maintain the limit pricing policy to deter the entry of new ? c) How the share the market? d) Are they collusive oligopolistic or non collusive? e) Are they price leadership oligopolist or not? f) How could they operate in the long run while some of them closed it even within the short run? Since there are very limited attempts only are available to answers this question. This calls for an enquiry by incorporating the micro economics theory with the political system. This paper is attempted to fill this gap in research.

Key Words: Limit Pricing Oligopoly, Oligopolitics, Breaking the Oligopoly Politics, Collusive and Non Collusive Politics, Entry Prevention in Politics

JEL Classifications: D01, D03, D43, D72, G18, H30, Q12, P48

PREMISES AND ISSUES

Everything is a product in economics and every product has its own market. Competitiveness determines the quality and the price of the product. If the competition is higher in a market than more quality products would be made available and vice versa. This basic rule of the market can be applied to all the market and the political market is not an exemption to it. Operation of more number of in a country can be than conceptualized as easy availability of various forms of political products and services in the economy and vice versa. In India for the past seven decades the political markets is dominated as duopolistic politics by Congress and that of Bharathiya Janatha Party (BJP) with the barrier to entry or survive. The effect of such long lasting limit pricing nature of the political system and how far it disturbed the welfare of the public by preventing the healthy competition in the political market is largely unknown which warrant economist to make an enquiry into the inter relationship between the micro economics theory of limit pricing oligopoly market and the politics. For this purpose the suitable political set up similar to limit pricing oligopoly market of Tamilnadu is chosen with the following research question

1. What makes the political market duopolistic?
2. What is the process of oligopolistic political market when new one enters?
3. How profitability of oligopolistic politics for both the public and the parties?
4. What are the impacts and implications of oligopolistic politics in India?
5. How do the existing fix the limit pricing policies?
6. In what terms they create barrier to entry?
7. How do they succeed in the barrier or entry prevention for the long run?
8. How to break the entry prevention polices of the oligopolitics and increase the public welfare through competition?

The pre requests of attempt to answer these above questions is lies with the sound understanding of the earlier relevant research done on this topic which are shortlisted below.

REVIEW OF LITERATURE

Andrew Sweeting, James W. Roberts and Chris Gedge (2016) have studied about the dynamic limit pricing with an application to the airline industry and developed a dynamic limit pricing model where an incumbent repeatedly signals information relevant to a potential entrant's expected profitability. The model is tractable, with a unique equilibrium under refinement. The researchers show that the model provides a plausible explanation for why incumbent airlines cut prices dramatically on routes threatened with entry by Southwest Airlines by providing new evidence that incumbents sought to deter entry, showing that other suggested explanations are inconsistent with the data, and demonstrating that our model can predict the size of cuts observed in the data when we parameterize it to capture the main features of these routes.

Based on the Gini coefficient, Franco Modigliani (1958) suggested in his new developments on the oligopoly front that concentration had tended to increase the appreciation of the limit pricing over a period. Bhagwati, J. N., (1970) in his paper titled oligopoly theory, entry prevention and growth he highlighted about the various options of entry prevention price available to the established firms and justified how the firm will set the limit price to achieve maximum profit even in the short run.

Christopher Gedge, James W. Roberts and Andrew Sweeting (2014) has applied the limit pricing theory of oligopoly in the airline industry and the potential and actual entry on the distribution of the airline prices. By mathematically constructing the incumbent market by carrier and by constructing the market size, they have developed theoretical and empirical frameworks for analyzing a classic form of strategic behavior of entry deterrence by setting a low price.

Curwen P.J. (1976) in his contribution titled the role of entry in oligopoly: the theory of the firm he argued that the literature on entry has become very extensive over the years. Although the question of entry-preventing behavior was first raised by Kaldor, the main discussion arose out of the basic prediction of the model of monopolistic competition that firms would earn only normal profits in the long run, and that each firm would be operating with excess capacity. Harrod argued that firms would forgo some potential profit in the short run by setting a price lower level that which would maximize their profits in order to discourage new entrants into the industry. Subsequently, the discussion of the role of entry has largely evolved into an

attempt to provide answer to the question as to whether it is more profitable for a firm to maximize short-run profits in the knowledge that this will attract new entrants and hence erode the firm's market share in the long run, or for a firm to deter entry by holding down prices in the short run in the expectation that it will be able to retain a substantial share of the market over time.

Dale K. Osborne (1964) has argued about the role of entry in oligopoly theory and highlighted about the various types of barrier to entry. Pashigian, B. (1968) work titled limit price and the market share of the leading firm provides the detailed explanation of why the market share of the leading firm did not decline. He also noted that it may be more profitable in some cases to set the limit price and accept the entry and justifies how Bain and Modigliani have largely ignored the discrepancy between the limit price and the competitive price. David B Baron (1973) has investigated the effect of potential entry and barriers to entry on the price and profitability of the firm and proved the concept that the potentials to the entry will attract the new firms.

Eichner, A. (1974) studies about the determination of the mark-up under oligopoly and discussed about the various cost conditions of the oligopolies by providing an extended micro economics theory of the oligopolistic firm with time horizon differentiating from the traditional micro economic theory.

Fisher, F. (1959) in his work titled new developments on the oligopoly front: cournot and the Bain-Sylos analysis reviewed the model presented by Modigliani and tested the importance implication of Sylos postulate. Frank Bass Ernan Haruvy Ashutosh Prasad(2006) in their variable pricing in oligopoly market they stressed about how the oligopoly market as Price variability affects consumer sensitivity to price and product differences. This conclusion arises from two streams of literature. However, slight differences in behavioral specifications in the literatures were found to cause diametrically opposite pricing implications for firms. In the "payoff sensitivity" specification, as variability increases, consumer attention to quality and price differences falls. Hence, lower-quality, lower-priced firms can compete better.

George, K. (1968) analyzed about the concentration, barriers to entry and rates of return. Using the leading companies in the industries and their concentration ratios he explained about the barrier to entry possibilities and the process involves in the setting of limit pricing.

John T. Wenders, (1971) also studied about the collusion and entry and analyze the problems faced by collusive oligopolist through the limit pricing models. With the above the limit price model they have analyzed three problems wise when should the collusive firms lower industry price to the limit price to prevent further entry?, under what conditions it will work and what model can be adopted to the price leadership. John T. Wenders,(1967) explains about the entry and monopoly pricing by superimposing the maximizing price is the same for all firms and equal to the monopoly price and discover how products in the long run. Jos'É Azar (2012) studied about the oligopoly and its implicit collusion through portfolio diversification and concluded that if the ownership of the firms is more concentrated, collusion could potentially be easier, because the agency problem would be less intense.

Kamien, M. I., & Schwartz, N. L. (1971) have studied about the limit pricing and uncertain entry and provides solution for optimal control, problems with single and multiple control variables. By excluding some of the problems associated with the limit pricing theory such as motivation and the knowledge about various strategies the new entrant left unsolved the attempt concludes that current price policy types of cartels in limit pricing will provide normal profit for the industry in the long run. Again 1972 the same authors has released an article titled uncertain entry and excess capacity and discovered about the pre and post entry capacity of the firm in the determination of the limit pricing.

Koutsoyiannis (1979) has delineated the limit pricing oligopoly model of Sylos Labini and numerically proved that how a potential entrants can be restricted from entry into the industry by the existing firms and willing to receive minimum profit instead of obtaining the supernormal profit.

Osborne, D. (1965) analyzed about the entry in oligopoly market and explained how that new entrants can violate the Sylos postulates and damage the theory. Mann, H. (1966) has made an enquiry about the concepts of seller concentration, barriers to entry, and rates of return in thirty Industries. Using the data base of thirty industries from 1936-1951 the relationships between the barrier to entry and the sales concentration of the firms studied and proved the findings of Bain that at the initial stage the firms would be to accumulate the influence of the market and the high rate of returns potentials which will reduce after the entry of the new firms.

Preston, J. (1988) in his work titled regulation, competition and market structure: A literature reviews the stages of bus industry and he concluded two concepts. First the

deregulation will lead to overall high fare and high frequency combinations in areas of heavy demand with areas of low demand which left unserved. Secondly the deregulation will lead to distinct qualities being offered in different fares. In particular, high frequencies will be offered at high fares for those with high values of time, whilst low frequencies with low fares will be offered for those with low values of time.

Robert E. Hall (2008) has researched into the potential competition, limit pricing, and price elevation from exclusionary conduct and found that the implications of the modern analysis of limit pricing are ambiguous on this point. Modern dynamic models of potential competition recognize that incumbent firms may employ strategies that trade off some reduction in prices before entry to deter entry and thereby avoid the larger reduction in price that would occur upon entry of a rival. As a result, antitrust law should strategies that involve reductions in price relative to more static monopoly outcomes and be allowed even though they allow incumbent monopolists to sustain their market power for longer periods of time.

Salary Andrade De Sa and Julien Doubanes (2014) have studied about the limit pricing and the ineffectiveness of the carbon tax and interpreted the limit price more broadly than the entry price of a substitute that offers drastic substitution possibilities. Sometimes the backstop substitute needs to be developed and the falling limit price induced by the strategic oil producer, which destroys the oil demand after some lag.

Shepherd, W. (1973) in his work revealed ideas on the entry as a substitute for regulation reveals that how the entry of new firms can be conceptualized as the substitutes for the regulation of the market where the usual regulatory norms fails. He argued in favour of the new entry as it clears market imperfection through the competitions.

Susmita Chatterjee, Srobonti Chattopadhyay, Rittwik Chatterjee and Debabrata Dutta (2017) have studied about the public firm in mixed oligopolistic structure through theoretical exposition and found that the choice problem of a public sector firm is subject to additional on straints, vis a vis private firms. Profit maximization without constraint always produces better result than constrained maximization. State owned firm cannot charge a high price, so as to maximise profit. The social welfare maximization obligation restricts the profit. This is known as the problem of multiple objectives and sub optimal performance.

Sylos-Labini, P(1962) has explained about the oligopoly and technical progress through his limit pricing oligopoly model and suggest that the entry prevention price

is sometime may not be profitable in the short run and would be profitable in the long run.

Summing up the available theoretical and empirical literature it is found that there are very few attempts only made in respect to the application and the implication of the limit pricing theory which stimulates an intuition to inquire into finding the real world evidence and applications of the theory of limit pricing oligopoly in the market? With this backdrop this paper is attempted to fill this gap in research by interconnecting the economics theory of limit pricing oligopoly with the ongoing politics of Tamilnadu.

CORE IDEA OF THE THEORY

Limit Pricing is a pricing strategy the monopolist may use to stop entry. If a monopolist set its profit maximizing price (where $MR=MC$) the level of supernormal profit would be so high and will attracts new firms into the market. Limit pricing involves reducing the price sufficiently to deter entry. It leads to less profit than possible in short-term, but it can enable the firm to retain its monopoly position in long-term with high profitability.

For limit pricing to be effective, the monopolist needs to decrease the price to the point where a new firm will not be able to make any profit by entering the market. By discouraging entry, the incumbent firm is guaranteed an 'easy life' and guaranteed high profits.

A large multinational may be willing to enter a market - even if it is unprofitable in the short-term. The large multinational can use its reserves and profit elsewhere to substitutes a loss of making entry. Rather than limit pricing, a firm may set the profit maximizing price, but then react when a new firm enters. Limit pricing will be more effective in industries with substantial economies of scale.

Integrating the Limit Pricing Theory of Oligopoly and Politics: A Theoretical Framework:

Bain formulated his 'limit-price' theory in an article published in 1949, several years before his major work *Barriers to New Competition* which was published in 1956. His aim in his early article was to explain why firms over a long period of time were keeping their price at a level of demand where the elasticity was below unity, that is, they did not charge the price which would maximize their revenue.

His conclusion was that the traditional theory was unable to explain this empirical fact due to the omission from the pricing decision of an important factor, namely the threat of potential entry. Traditional theory was concerned only with actual entry, which resulted in the long-run equilibrium of the firm and the industry (where $P = LAC$).

However, the price, Bain argued, did not fall to the level of LAC in the long run because of the existence of barriers to entry, while at the same time price was not set at the level compatible with profit maximization because of the threat of potential entry. Actually the maintained price was set at a level above the LAC (= pure competition price) and below the monopoly price (the price where $MC = MR$ and short-run profits are maximized).

This behavior can be explained by assuming that there are barriers to entry, and that the existing firms do not set the monopoly price but the 'limit price', that is, the highest price which the established firms believe they can charge without inducing entry. Now let us enquire about this limit pricing strategy and its relevance to politics with the following assumptions.

Major Assumptions of Bains Model

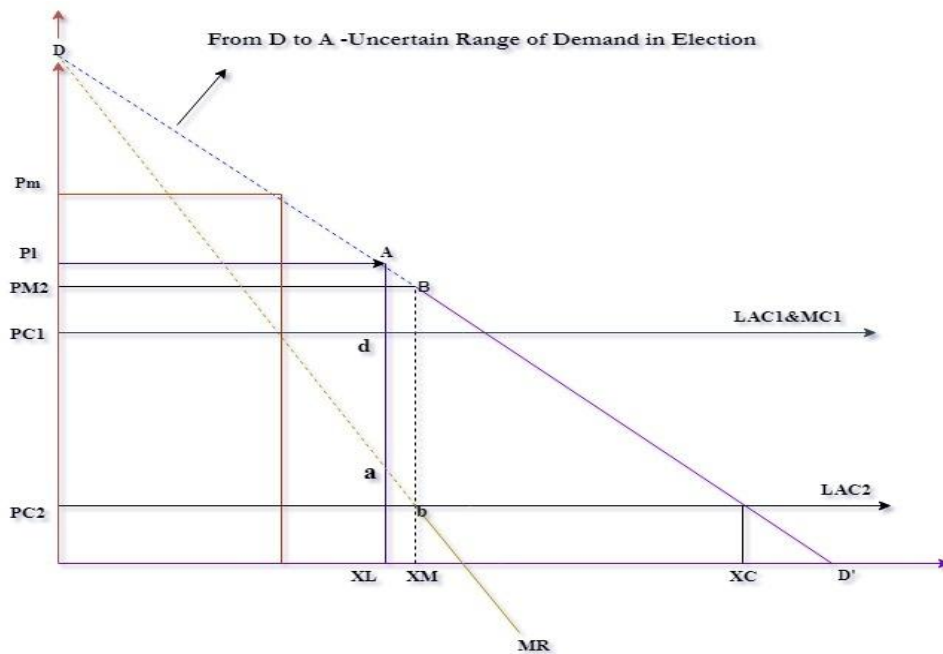
1. There is a definite long-run demand curve for industry output, which is unaffected by price adjustments of sellers or by entry. Hence the market marginal revenue curve is determinate. This is one of the suitable assumption for the analysis because in the political market status of MPs and MLAs for the present and the future is definite.
2. There is effective collusion among the established oligopolist in the sense the established collude with the others in the determination of price and the supply of political products and services to the public.
3. The established firms can compute a limit price, below which entry will not occur. The limit price will be set depends upon the limitation of costs of the potential entrant, market elasticity of demand, shape and level of the LAC, the size of the market and the number of in the industry.
4. Above the limit price, entry is attracted and there is considerable uncertainty concerning the activities of the dominant after the entry of new firm
5. The established firms seek the maximization of their own long-run profit.

6. The entrants react on the basis of the current price they expect the price charged by the established firms to continue in the post-entry period.
7. The established firms are aware of the threat of potential entry.
8. The established firms can estimate correctly the limit price.

MODEL 1: BAINS THEORY ANT ITS RELEVANCE TO TAMILNADU POLITICS

The idea of the application of the bains model of limit pricing oligopoly to tamilnadu politics can be classified into the two sections as follows.

Case: 1: If there is No Collusion with the New

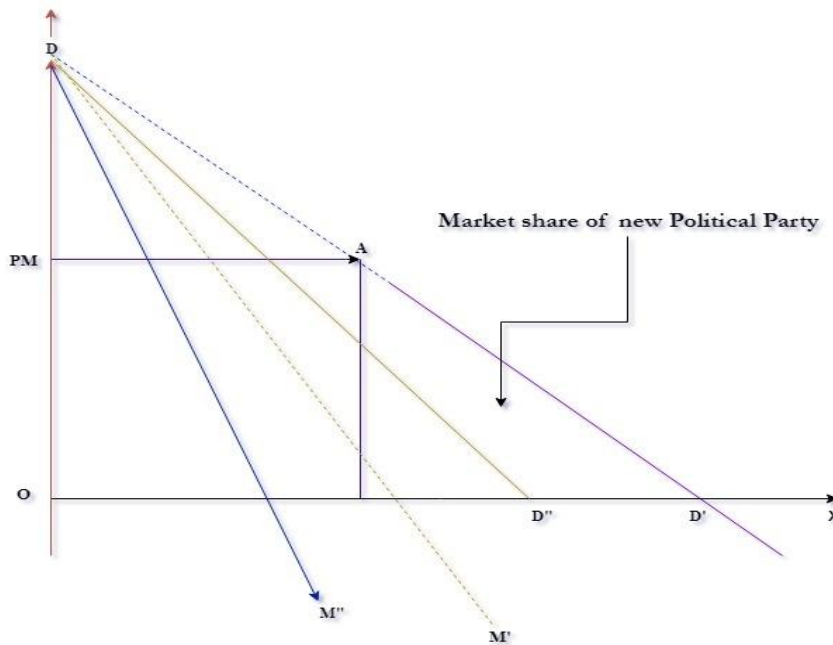


Assume that the market demand is $DABD'$ with the corresponding marginal revenue is $Dabm$ (Figure. 1). Assume further that the limit price (P_L) is correctly calculated (and known both to the existing firms and to the potential entrants). Given P_L , only the part AD' of the demand curve and the section am of the MR are certain for the firms. The part to the left of A , that is, DA is uncertain, because the behavior of the entrant is not known. Whether the firms will charge the P_L or not depends on the profitability of alternatives open to them, given their costs.

Assume the LAC (which is uniquely determined by the addition of the $LMC = LAC$ of the collusive oligopolist) is LAC_1 . In this case two alternatives are possible. Either to charge the P_L and realize the profit $P_L AdP_{c1}$ with certainty or to charge the monopoly price, that is, the price that corresponds to the intersection of $LAC_1 = MC_1$ with the MR. This price will be higher than P_L (given LAC_1), but its precise level is uncertain post-entry. Thus the profits in the second alternative are uncertain and must be risk-discounted. The firm will compare the certain profits from charging P_L with the heavily risk-discounted profits from the second 'gamble' alternative, and will choose the price (P_L or P_M) that yields the greatest total profits. Given the entry-preventing price PC_1 is defined, the alternatives choices are available to the established viz 1. To charge a price equal to P_L and prevent entry 2. To charge a price below P_L and prevent entry (this will be adopted if $P_M < P_L$). 3. To charge a price above P_L and take the risks associated with the ensuing entry. It will choose the alternative which maximizes profit.

Case: 2: If Collusion Takes Place between Established and New Political Parties

With collusion assumed to take place between the established firms and the entrant the model would be even easier, however with collusion the whole D curve shifts to the left by the share which is allocated to the new entrant at each price. The new DD'' curve is known with certainty at all its points, as a consequence of the collusion, and so is the corresponding m'' which is revealed in the Figure. 2.



In this case also there are three alternative options available to the firm as follows.

1. Either charge P_L or exploit AD' without entry.
2. Charge a price above P_L and attract entry. The firm will eventually move to a point on the share-of-the-market curve DD'' , via collusive agreement with the new entrant.
3. Charge the profit-maximizing price P_M , if $P_M < P_L$.

Among these alternatives, it will choose the one that yields maximum profits.

Then three major possibilities exist in front of the Oligopolistic:

The policy of pricing to maximize industry profit with no entry. This can be done by fixing the price at P_M . P_M resulting is adopted when $P_L > P_M$, i.e. the limit price is not operative because by charging the lower P_M price profits are maximized. Pricing to forestall entry with the profit but industry profits not maximized this can be done by fixing the price where $P_L < P_M$.

Pricing to maximize industry profit but with resulting entry. This implies $P_M > P_L$. This action would be chosen if it is more profitable as compared with charging P_L . The first two situations lead to long-run equilibrium of the industry without entry or exit. The third case implies an unstable equilibrium since entry would be taking place.

The limit price will be chosen in favour of monopoly price if the former yields maximum long-run profits. The rationale of adopting the entry-prevention policy is profit maximization. Whenever such a limit price is adopted it is implied that the firm has done all the relevant calculations of profits of alternative policies

MODEL 2: SYLOS-LABINI LIMIT PRICING THEORY AND ITS RELEVANCE TO TAMILNADU POLITICS:

Sylos-Labini developed a model of limit-pricing based on scale-barriers to entry. The economies-of-scale barrier is more suitable to the political market than that of Bain. He highlighted the determinants of the limit price and discussed their implications, thus providing the basis for Modigliani's more general model of entry-preventing pricing. Sylos-Labini concentrated his analysis on the case of a homogeneous oligopoly whose technology is characterized by technical discontinuities and economies of scale.

Assumptions:

1. The market demand is given and has unitary elasticity. The product is homogeneous and will be sold at a unique equilibrium price. Every have their own method of doing politics called their technology.
2. The technology consists of three types of plant small with a tiny capacity and a medium-size with a capacity of medium output and a large-size plant with a capacity of relatively bigger market share. Each firm can expand by multiples of its initial plant size only. There are economies of scale cost decreases as the size of the plant increases three cost lines corresponding to the sizes of the party.
3. The price is set by the price leader who is the largest firm, with the lowest cost at a level low enough to prevent entry. The smaller firms are price-takers. Each one individually cannot affect the price. But collectively they may put pressure on the leader by regulating their output. The largest firm must set a price that is acceptable to all the firms in the market as well as preventing entry if the collusion takes place on the basis of the price leadership by low cost or dominant .

This is what happened in the state politics of Tamilnadu for the past few decades. Both the Dravida Munnetra Kazhagam-DMK and the Anna Dravida Munnetra Kazhagam-ADMK have been setting the entry prevention price by making collusion with the potential entrants like VCK, DMDK, PMK, and other small when ever political challenges arises. Since these small sized and other newly formed parties like Makkal Neethi Maiyam and other are unknown about their market share they accept the collusion with the existing parties and accept very minimum numbers of seat offered by the existing ruling parties and face the elections.

It is to be noted that the new entrants cannot survive in the long run even if they own political power due to the limited financial allocation offered for them from the ruling parties. As a result they have to go in collaboration with the existing ruling parties. If they tend to become a new competition to the already existing parties they would never allow it and kick them out of the market by isolating and using the entry prevention price. For example offering of free products for all the households like TV, Grinder, Mixy, cattles like Goat and cow has not only detained the entry of the new in the state and also it prevent even the existing experienced like DMK to stay away from the market.

4. There is a normal rate of profit in each industry.
5. The leader is assumed to know the cost structure of all plant sizes, and the market demand.
6. The entrant is assumed to come into the industry with the smallest plant size and have no capacity to adjust with loss.
7. The established firms and the entrant behave according to Sylos's postulate which describes that the established expect that the potential entrant will not come into the market if he thinks that the price of post-entry will fall below his LAC and the new political entrant expects that the established firms will never change the policies in the post-entry period.

In addition to this assumptions specified in the theory the following additional and realistic assumptions are also to be required to understand the implications.

8. For the sake of analysis there are assumed as the firms since they design and implement the public welfare policies. The markets for the supply of these products are of oligopolist since it has a few participation where as on the demand side it is perfectly competitive market with durable goods.
9. Consumers of the political products and services or the nature of public are not rational but act upon the rational expectation hypothesis.
10. Are designing the products and services to the public and receive the administrative power over the country for the long run as their rewards or revenue in addition to the influences.

LIMIT PRICING PRICE DETERMINATION OF POLITICS

The market share of the is measured through the seat they owned in the loc Saba and in the central Rajya Saba assembly in the form of number of members of the parliaments and the number of the (MPs and MLAs) that a have. More the number of MPs and MLAs more would be the political power and market share and vice versa. Similarly more the power they can compete independently in all assemblies and vice versa. It is said that the price is set by the largest, most efficient who are having high market share and it will set the equilibrium price which must be acceptable by all the firms in the industry, and should be at a level that prevent entry of new into the system. If the costs

conditions of the political parties are different, then there should be as many minimum acceptable prices for various parties of sizes. For each party size there should to be a minimum acceptable price to define to ensure continue the collusion. It can be defined as

$$P_i = TAC_i(1 + r)$$

where P_t = the minimum acceptable price for the i th size

TAC_i = total average cost for the i Th size

r = Normal profit rate of the industry

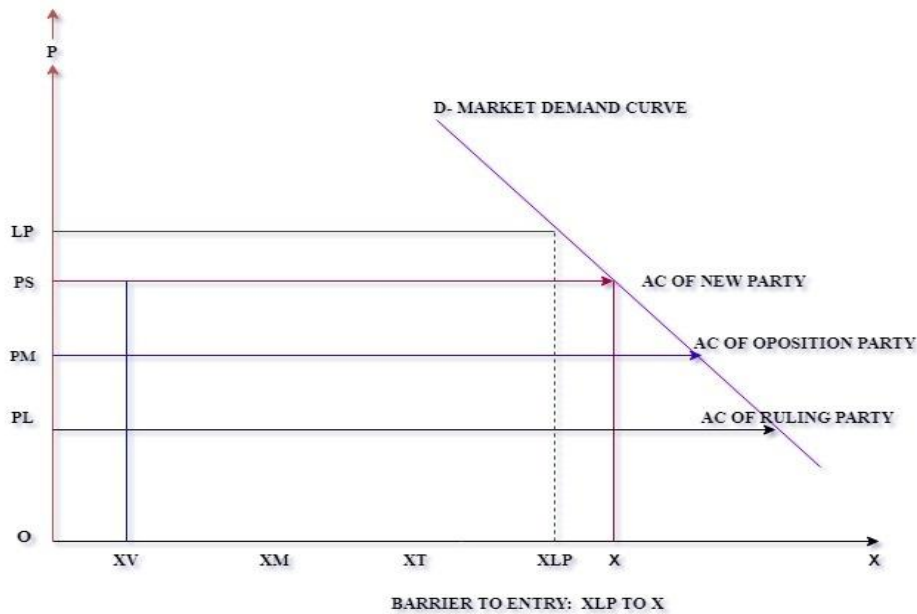
The minimum acceptable price covers to survive the TAC of the plant and the normal (minimum) profit rate of the industry. The price leader is assumed to know the cost structure of all plant sizes and the normal profit rate of the industry and will set the price that is acceptable by the smallest, least efficient firms, and will deter entry. The price tends to settle at a level immediately above the entry preventing price of the least efficient firms, takes place with the minimum plant scale with the highest cost.

In Sylos's model, where differential costs are assumed, the price, in order to be a long-run equilibrium one, apart from preventing entry must also be acceptable by the least efficient firms, allowing them to earn at least the normal industry profit given that the most efficient firm (leader) does not find it worthy to eliminate the smaller firms, either because such action is not profitable or the leader afraid of the any intervention of the regulatory bodies.

Clearly the medium and large-scale firms, having lower costs, will be earning abnormal profits. But small firms will also normally will be earning some abnormal profits without attracting entry.

Similarly the nature of limit pricing oligopoly market with reference to the state of Tamilnadu can be explained through the following figure 3 in which line PL, PM and PS are represents price set by the parties with very low average cost of the large potential party or the ruling party, with medium capacity or the opposition parties and the low efficient or the new entrants respectively. The market demand at the minimum acceptable price P_s of the smallest, least efficient, party is X . The leader will set the limit price $P_L > P_s$. The price LP corresponding to the level of output $X_{LP} = X - X_s$ and is the equilibrium price because it satisfies the two necessary condition that it is acceptable by all firms, and it deters entry, because if entry occurs the total output X_L will be increased

at the level $X_{LP} + X_s = X$ and the price will fall to the minimum acceptable price of the entrant, that is, to a level just below P_s .



The LP is indirectly determined by the total output that the established firms will sell in the market. Given that in the long run price cannot fall below the cost of the least efficient firm, and that the entrant can enter only with the smallest least-efficient plant size, the leader can determine the output X at which all established firms use their plants up to capacity. He next determines the total quantity that the firms will sell in the industry X_{LP} so as to prevent entry.

X_L is such that if the entrant comes into the market with the minimum viable size, X_s , the total post-entry output ($X_{LP} + X_s$) will just exceed X , and hence will drive price down to a level just below the AC of the entrant. Given X_{LP} , the limit price LP is determined from the market-demand curve DD. The entrant will be deterred from entering the market because they know that if they enter they will cause the price to fall below his AC. Any output larger than X_{LP} is entry-preventing. It should be clear that in Sylos's model all firms earn abnormal profits, which are increasing with plant size and there is an upper and a lower limit of the entry-preventing price and the equilibrium price cannot be higher than LP not lower than P_s .

In Sylos's model the Determinants of the Entry-Preventing Price are:

(1). There is a negative relationship between the absolute size of the market and the limit price. The larger the market sizes the lower the entry prevention price. If there is a

dynamic increase in the demand, denoted by a shift to the right of the industry-demand curve, the effect on the price and the structure of the industry depends on the size and the rate of increase.

If the increase in demand is considerable and occurs rapidly, the existing firms will have to set lower price initially, in anticipation of the developments on the demand side, and build up additional capacity to meet the demand. If it failed build up capacity fast enough to keep up with the rate of growth in demand, and then entry from new firms or already established firms in other industries will take place.

If the growth of demand is slow, the existing firms will most probably be able to meet the increased demand by making appropriate reserve capacity the price will not be reduced.

(2). the elasticity of market demand is also negatively related to the limit price. The more elasticity of the demand is, the lower the price that established firms can charge without attracting entry. The detection of changes in the elasticity is almost impossibly difficult in practice, and the established firms will most probably not count (and plan ahead) on such uncertain changes in it. Thus if it change substantially, new large firms (established elsewhere) will enter into the market, since the existing firms will not be able to cope with such change, and the price will fall.

(3). the prices of factors of production, which, together with the technology, determine the total average cost of the political parties. Changes in factor prices affect all the firms in the industry in the same way. Thus an increase in factor prices will lead to an increase in the costs and the limit price in the industry. Similarly a reduction in factor prices will lead to a decrease in the limit price

DIFFERENTIATED OLIGOPOLITICS

Sylos extended his analysis to the case of differentiated oligopoly. Sylos argues that when the products are differentiated the entry-barriers will be stronger than in the case of homogeneous oligopoly due to marketing economies of scale. It seems to accept that advertising unit costs and possibly the cost of raw materials per unit of output are likely to fall as the scale of output increases. Hence the overall cost difference between the smaller and larger parties will be greater as compared to the homogeneous oligopoly case. Product differentiation, therefore, will reinforce the scale-barrier. Sylos's analysis of differentiated oligopoly lacks the rigors of his model of homogeneous oligopoly. He

suggests, however, that he is primarily concerned with the implications of technological discontinuities for price and output, and that product differentiation is one of the main concerns.

CONCLUSION AND SCOPE

Incorporating the limit pricing oligopoly with the political setup and analyzing it has numerous limitations like the nature of products they design and deliver the market trend and so on. The long year's existence present both at the state of Tamilnadu and at the central level arise due to the adoption of limit pricing and entry prevention methods through both open collusion with every newly formed and with the old, existing parties even with some opposition parties by timely changing the political agendas and through various indirect understanding and deter the entry. Beyond this entry threat if anyone enters the exiting political firms will force and compel them to collude with the existing firm or to loss their power and quite from political market. All this situations clearly proves the operation of the limit pricing oligopoly market in the Tamilnadu.

In order to improve the public welfare this impact of limit pricing oligopoly in the political market has to be break down through increasing the competition by changing the oligopoly nature of politics into perfect competitive nature of the political markets. The source of the breaking the oligopoly market has to be introduced through adjustment in the democratic rules by delimiting the frequency of a and individuals to participate in the democracy and suitable , similar approaches are to be explored through more in-depth interdisciplinary researches.

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