Oligopoly and Game Theory
Characteristics of An Oligopoly

- There are few firms serving many consumers
- These few firms each are large relative to the total industry.
- There are some barriers to entry
Rules Under Review

• Bans on a broadcaster from owning TV stations that reach more than 35% of U.S. homes.
• Owning two stations in “smaller cities” and owning a newspaper and TV station in one market.
Assumptions

• All firms attempt to maximize profit
  – Perfect Competition
  – Monopoly
  – Oligopoly

• Greed is Good
Game Theory

• A decision rule that describes the actions a player will take at each decision point.
• A strategy that results in the “highest payoff” to a player regardless of the opponents action
Game Theory - Oligopoly

- Actions of one firm impact the actions of other firms
- In perfect competition no single firm has a enough influence over the market to impact the market.
Information/Payoffs

• Broadcasters know “who” is watching and listening to programs.
• Higher payoffs result from higher number of viewers and listeners.
• Lower payoffs result from lower number of viewers and listeners.
TV and Radio

- Provide “entertainment” and “news”
- They sell advertisement for this entertainment and news.
- They are encouraged “by the market” to produce shows where they can sell the most advertisement.
Strategy Adopted by Broadcasters

• Dominant Strategy
  – Provide programs where profits can be maximized by selling advertisement.
  – Provide programs that can be sold directly to a consumer so profits are maximized.
Fairness Doctrine

• "Imagine a town in which the only opinions one could find on TV, radio, or in the newspaper might be those of Rush Limbaugh”
  » Jo Chamberlain, a California Green

• FCC's has a mandate to protect localism, competition and diversity.
Balanced “Programming”

• Should the “government” guarantee that political opinions expressed over the airwaves be balanced?
• Does the 1st Amendment guarantee free speech or balanced speech?
1st Amendment

- Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press…
Sources for News

- TV, the Web, newspapers and radio all serve as sources for news-seeking consumers.
- 56% of Households have access to the web
  - 98% of Public Libraries provide free internet access
- There are over 10,000 daily newspapers and over 14,000 periodicals.
Radio Deregulation

- Radio and TV regulation was established in 1934 when there were only 500 radio stations.
- In 1981, the FCC officially deregulated the radio industry (there were 7,800 stations) as of 2002 there were 13,500.
Current Ownership

- Viacom (27.5%) and Clear Channel (17.6%) own nearly 50% of all radio stations.
- No other company owns more than 4% of the market
- 4,600 companies own 32.7% of the market.
Local v. National

- Did local programming decline?
- Did the number of choices decline?
  - Today there are 13,150 radio stations (in 1980 there was 7,800).
  - There are about 30 radio stations in Kansas City Area
    - 10 AM and 20 FM
Radio Advertisement - Revenues (in millions)
Local versus National

Source: Statistical Abstract of the United States
1980: Table 898, 2001: Table 1253
Real Growth in advertising by major sector since 1980

• Radio – 2.2 times
• Cable – 56 times
• Local Network – 8 times
• National Network – 1.6 times

Source: Statistical Abstract of the United States
1980: Table 898, 2002: Table 1274
TV Viewers

- JOE MILLIONAIRE - 19 Million Households
- AMERICAN IDOL-TUESDAY – 19 Million Households
- 60 Minutes – 11 million households
- By the way, USAToday lists the programs of over 75 different channels
Decline of Network News

• In the 1979-80 season, 75 percent of all TV sets were tuned to a network news program, either ABC, CBS or NBC.

• In 2001 that share had dropped to just 43 percent.
Households and Network News

• NBC – 11.2 million households
• ABC – 9.7 million households
• CBS – 8.3 million households
• Fox News – 4.5 million households
Network News
Household Distribution

- NBC: 33%
- ABC: 29%
- CBS: 25%
- FOX: 13%
Conservative Talk Radio?

- Rush Limbaugh (EIB) – over 20 million listeners
- Dr. Laura – 20 million
- Bill O’Reilly (No Spin Zone) – 15 million
- Sean Hannity (Let Liberty Ring) – 5 million
- Michael Savage (Savage Nation) – 6 million
Comparative Analysis

- Rush Limbaugh has 20 million listeners and Dr. Laura has 20 million listeners.
- The shows are on at the same time (in most markets).
- This represents about 40% of all households.
  - There are about 104,000 households in the USA.
Is it the market or a conspiracy?