

# **Supply Response Liberalization and Privatization in an Oligopoly**

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## **Abstract**

The goal of the paper is to elucidate a development of an oligopolistic industry (with symmetric technology) after price liberalization and some possible effects of privatization in it. The analysis is based on a theoretic model in the form of a system of difference equations where firms' parameters of sensitivity to profit opportunities play the role of adjustment speeds. Sufficient condition for local stability is derived. Even in the symmetric technology case output paths of individual firms can be very different because of differences in sensitivity to profit opportunities (which is a behavioral parameter) and different pre-price-liberalization outputs (which were determined by central authorities under the previous regime). This confirms that negative developments (declining output and rising prices) cannot be attributed to reform measures (price liberalization itself). It also implies that current performance cannot be an indicator of a firm's prospects. Therefore firm-specific economic policy measures are illusory. Under certain restrictions on parameters of sensitivity to profit opportunities the modelled adjustment process can be rational--in the sense that, given outputs of competitors, firm's output in the current period gives it higher profit than sticking to the preceding period output--for finite number of (finite) time periods. Such restrictions can be formulated also for parameters of sensitivity to profit opportunities corresponding to Cournot tatonement.