Horizontal restrictions of competition can take different forms – the most obvious being a price cartel, where producers directly agree on the prices of their products. Through a contractual agreement the cartel members are able to increase their joint market power, which leads to higher prices, lower output and, eventually, decreased consumer welfare (the conventional argument against monopolies). It has been estimated that the magnitude of the harm from cartels is many billions of dollars annually.

The first part of this thesis presents the most important economic contribution made to the analysis of oligopolistic coordination, which includes among others the articles from Green and Porter (1984) and Rotemberg and Saloner (1986). The analysis begins by identifying structural factors that affect the stability and sustainability of collusion. These factors include industry concentration, entry barriers and demand fluctuations. The analysis shows that collusive behaviour is more likely in industries where concentration ratios and entry barriers are high. However, collusion is more difficult to sustain if demand is unstable. The role played by the presence of large levels of inventories and excess capacities is shown to be more ambiguous, which holds true also for product homogeneity. The end of the first part emphasises the role of price transparency and information exchange in sustaining collusive outcomes.

The second part of the thesis is about antitrust enforcement against cartels. Since competition authorities rarely have reliable data on firms’ costs, the detection of cartels is difficult. To overcome this problem of asymmetric information, the authorities in both US and EU have adopted so-called leniency programs that grant reduced fines for cartel members that cooperate with the authority, thus helping to reveal the illegal cartel. The analysis follows Motta and Polo (2003), showing that fine reductions may make antitrust enforcement more effective, but only if the authority’s resources are scarce. Since fine reductions also reduce the cost of collusive behaviour, they may – under certain combinations of policy parameters – make collusion even more attractive.