sellers and they will all respond in the same way. But lacking such a force, if any one seller tries to raise his price merely to increase his profits, he will quickly lose sales to his competitors and be unable to maintain the increase.

In the same way, when market forces permit or require a reduction in prices, if some sellers try to maintain prices there will always be others who will find it more profitable to reduce prices and increase their sales, and the holdouts will be forced to follow the market trend.

It is very different when the number of sellers is few. The simplest example is an industry with only two firms in it, A and B. Let us suppose that A makes a discretionary decision to raise his price because he wants a larger profit. B then has two choices. He can maintain the lower price, and this will soon force A to roll back his price especially if B is operating below optimum capacity. Or B can raise his price to A's level, *in which case both firms will enjoy higher profits* as long as the higher price was set in such a way that the drop in demand is more than offset by the rise in profit per unit. B's decision is virtually automatic. The situation is essentially the same when there are any small number of sellers dominating the market. It is particularly so when one seller enjoys a particularly high percentage of the total market. He then tends to become the recognized price leader, and the others follow his lead.

Concentration alone is not the only factor affecting price discretion. Ease of entry is another. If it is relatively easy for newcomers to start up in business, high profits will quickly attract them. But if that is a very expensive undertaking, as it is, for example, in the automobile industry, such newcomers will be very few. Product differentiation is still another factor. Heavy advertising of a company's brands or models tends to develop consumer loyalties and to reduce the competition they face from others. This is inflationary in two ways. It adds to the cost of selling, which is passed on to the consumer, and at the same time it permits such higher price level. It also increases the difficulty of entry for newcomers.

The study points out the relationship between these factors and the pricing and profit policies of the corporations possessing them. It says:

> Recent empirical studies demonstrate that each of these market characteristics—market concentration, entry barriers facing potential entrants, and the degree of product differentiation—has a bearing on the market power and pricing behavior of sellers. A growing number of studies confirms that there is a significant positive relationship between the level of industry concentration and reported industry profits. The studies show that profit rates tend to be 50 percent (or more) higher in highly concentrated industries than in moderately concentrated ones. Other studies demonstrate that the entry barriers protecting an industry from potential competitors also affects the level of profits. That is, the more difficult it is to enter an industry, the higher the prices at which firms may sell without inducing new competitors. Research studies also support the hypothesis that the degree of advertising-created product differentiation has a direct effect on industry profits. According to a recent study, consumer industries with high advertising outlays enjoy profit rates about 50 percent above those with low advertising outlays. The costs of advertising and of maintaining other barriers to entry will raise prices without appearing in reported profits.