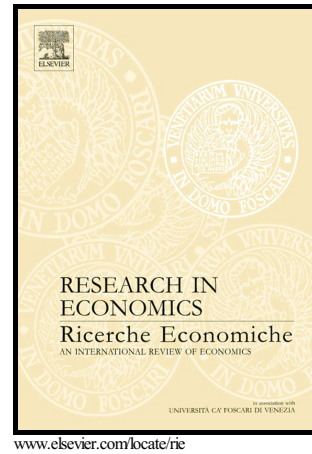


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# A Theory of Collusion with Partial Mutual Understanding\*

Joseph E. Harrington, Jr.<sup>†</sup>

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## Abstract

Unlawful collusion is when firms have a mutual understanding to coordinate their behavior for the purpose of achieving a supracompetitive outcome. Given the legal focus on mutual beliefs, this paper explores the role of mutual beliefs in producing collusion. Focusing on price leadership, firms are assumed to commonly believe that price increases will be at least matched but lack any shared understanding about who will lead, when they will, and at what prices. Sufficient conditions are derived which ensure that supracompetitive prices emerge. However, price is bounded below the maximal equilibrium price.

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