# Oligopoly and game theory[1] – Why do three firms dominate the credit reporting market?

**Related news article:** [Why do we only have three major credit bureaus?](#) (*Marketplace*, April 17, 2026)

**Summary of the article:** The article examines the three major U.S. credit bureaus: Experian, Equifax, and TransUnion. Credit reporting began in the 19th century when retailers started to look for customer information to determine which customers were trustworthy to offer them credit. Initially, the credit reporting market was more competitive, but it became more concentrated in the 1970s when technological advancements and computerization increased the fixed costs and led to the dominance of three major firms.

Credit scores determine loan eligibility, interest rates, and access to housing. These scores are based on individuals' borrowing histories, but critics argue that the credit bureaus have little incentive to ensure accuracy and have struggled to protect consumer data. Competition is also limited and consumers cannot choose which bureau(s) to use. Lenders usually rely on all three. Resolutions of consumers' disputes tend to be biased and favor creditors over consumers.

While greater competition typically improves the quality of services, many experts doubt that availability of more credit reporting agencies would resolve these issues. As a solution, some advocates for eliminating credit scoring systems think that the credit system should be replaced with bank account history that better reflects a person's financial health. Others suggest creating a federal credit bureau to improve accountability, although this raises concerns about the government control over sensitive personal data.

***Note to instructors:*** This worksheet could be used for in-class or homework practice. You could ask students to read the entire article, *or* the excerpts below, *or* the summary above. One of the three options is sufficient to answer the questions. **Answers are provided at the end of this document.**

**Learning objectives:** At the end of this worksheet, students will be able to:

- Evaluate the characteristics of the credit reporting market to determine the market structure;
- Identify barriers to entry;
- Distinguish between simultaneous-move and sequential games;
- Analyze the payoff matrix of a simultaneous-move game of complete information to determine the dominant strategy of a player (if any);
- Analyze the payoff matrix of a simultaneous-move game of complete information to determine the Nash equilibrium of a game (if any);
- Identify negative externalities.

**Economics concepts:** Oligopoly, Game theory, Dominant strategy, Nash equilibrium, Simultaneous-move game, Sequential game, Barrier to entry, Fixed cost, Economies of scale, Product differentiation, Negative externality.

---

[1] More worksheets are freely available on the author's Substack "*Choice: Economics Materials for Success*": https://econstefani.substack.com/. Author's webpage: https://www.smilovanska-farrington.com/

**Suggested excerpts:**

*“Credit scores can determine whether you qualify for an apartment and the interest rate you’ll pay on your loan.”*

*“The three major credit agencies in the U.S. – Experian, Equifax and TransUnion – will provide lenders with your credit report, which they compile using information about your lending history. Credit scores are supposed to gauge your ability to pay back loans, but critics of the major credit agencies say they have no incentive to ensure your credit score is accurate and have questioned their ability to safeguard your personal information...”*

*“While in theory, greater competition could result in better service, some experts question whether more agencies would improve the credit reporting industry. Some proposed solutions? They say there could be a federal credit bureau, while others say that our credit system shouldn’t exist at all.”*

*“Credit bureaus began growing quickly in the late 19th century as the population expanded in cities and the U.S. started expanding westward…”*

*“In the 1970s, well-funded companies began buying up local credit bureaus, eventually leading to the three major credit reporting companies we have now: TransUnion, Experian and Equifax, Lauer said. Credit bureaus began digitizing consumer information during this period, which spurred consolidation, Lauer said.”*

*““Usually when you have competition, that helps kind of tamp down on abuses, price hikes and other poor treatment of customers […]. But there is no consumer choice with the big three credit bureaus…”*

*“Some lenders use all the major credit bureaus…”*

*“Klein thinks we should get rid of our current credit scoring system entirely and look at a consumer’s average daily bank balance over the past couple of years because that tells you a person’s true financial well-being.”*

## Questions

A) Why may the U.S. credit reporting market be considered an oligopoly?

B) How have technological advancements, high fixed costs, and economies of scale contributed to a market concentration (i.e., reduced degree of competition) in the credit reporting market.

C) Do you think the three credit bureaus provide identical or differentiated services?

D) FICO launched a program in 2025 that allowed credit scores to be distributed directly to mortgage companies, bypassing the three nationwide credit bureaus Equifax, TransUnion, and Experian (you can read more in this WSJ article). As a result, credit bureaus started to rethink their pricing. Does this scenario resemble a simultaneous-move or a sequential game between FICO and the credit bureaus? Please justify your answer.

For your information, FICO scores are used by 90% of top US lenders, so there has been criticism about FICO's monopolistic pricing and practices too.

E) Consider a simultaneous-move game of complete information in which two of the major credit bureaus, Equifax and Experian, choose between a "Low" and a "High" price. The following payoff matrix shows the annual profits of Equifax and Experian depending on what combination of pricing strategies the two firms choose:

| | | | |
|---|---|---|---|
| | | Experian | |
| | | High price | Low price |
| Equifax | High price | \$45 million; \$45 million | \$10 million; \$65 million |
| | Low price | \$65 million; \$10 million | \$15 million; \$15 million |

The first and the second payoff in each cell in the payoff matrix represent the annual profits of Equifax and Experian, respectively.

Use the payoff matrix to answer parts (E) to (G).

Does Equifax have a dominant strategy? If yes, what is it?

F) Does Experian have a dominant strategy? If yes, what is it?

G) Does the game have a Nash equilibrium/equilibria (NE)? If yes, what is it/are they?

H) What two alternatives to traditional credit reporting does the article propose? Which do you think is preferable?

I) How may inaccurate credit reports create negative externalities?

## Answers

A) Why may the U.S. credit reporting market be considered an oligopoly?

**Answer: Three large firms (Experian, Equifax, and TransUnion) dominate the credit reporting market. This implies an oligopoly.**

B) How have technological advancements, high fixed costs, and economies of scale contributed to a market concentration (i.e., reduced degree of competition) in the credit reporting market.

**Answer: Technological advancements and computerization increased the fixed costs, making entry more difficult. When companies experience economies of scale, this means that their average total costs decrease as they expand output. As the average cost of production decreases, these firms can offer services more efficiently and at lower prices, creating barriers to entry.**

C) Do you think the three credit bureaus provide identical or differentiated services?

**Answer: The services the three credit bureaus provide are close substitutes, because they base their reports on similar data.**

D) FICO launched a program in 2025 that allowed credit scores to be distributed directly to mortgage companies, bypassing the three nationwide credit bureaus Equifax, TransUnion, and Experian (you can read more in this WSJ article). As a result, credit bureaus started to rethink their pricing. Does this scenario resemble a simultaneous-move or a sequential game between FICO and the credit bureaus? Please justify your answer.

For your information, FICO scores are used by 90% of top US lenders, so there has been criticism about FICO's monopolistic pricing and practices too.

**Answer: The interaction resembles a sequential game. First, FICO started to sell scores directly to lenders, and then, credit bureaus responded by rethinking their pricing strategies.**

E) Consider a simultaneous-move game of complete information in which two of the major credit bureaus, Equifax and Experian, choose between a "Low" and a "High" price. The following payoff matrix shows the annual profits of Equifax and Experian depending on what combination of pricing strategies the two firms choose:

| | | Experian | |
|---|---|---|---|
| | | High price | Low price |
| Equifax | High price | \$45 million; \$45 million | \$10 million; \$65 million |
| | Low price | \$65 million; \$10 million | \$15 million; \$15 million |

The first and the second payoff in each cell in the payoff matrix represent the annual profits of Equifax and Experian, respectively.

Use the payoff matrix to answer parts (E) to (G).

Does Equifax have a dominant strategy? If yes, what is it?

**Answer: If Experian chooses a High price, Equifax is better of choosing a Low price, because $65B > $45B (higher profit). If Experian chooses a Low price, Equifax is better off choosing a Low price again, because $15B > $10B (higher profit). Therefore, regardless of the choice of Experian, Equifax is better off choosing a Low price. This implies that Equifax has a dominant strategy, and it is to choose a Low price.**

F) Does Experian have a dominant strategy? If yes, what is it?

**Answer: If Equifax chooses a High price, Experian is better of choosing a Low price, because $65B > $45B (higher profit). If Equifax chooses a Low price, Experian is better of choosing a Low price again, because $15B > $10B (higher profit). Therefore, regardless of the choice of Equifax, Experian is better off choosing a Low price. This implies that Experian has a dominant strategy, and it is to choose a Low price.**

G) Does the game have a Nash equilibrium/equilibria (NE)? If yes, what is it/are they?

**Answer: The game has one NE: (Equifax charges a Low price; Experian charges a Low price). Each firm's strategy is the best response to the other's choice, and neither firm has an incentive to deviate unilaterally.**

H) What two alternatives to traditional credit reporting does the article propose? Which do you think is preferable?

**Answer: The article suggests the following two alternatives: 1. Replacing the credit scoring system with bank account history; or 2. Creating a federal credit bureau. A third option is to keep the current system.**

**Answers about the optimal option would vary. Advocates for eliminating the credit scoring systems think that the credit system should be replaced with bank account history that better reflects a person's financial health. Others suggest creating a federal credit bureau to improve accountability.**

I) How may inaccurate credit reports create negative externalities?

**Answer: Some individuals may be denied credit or face higher interest rates due to credit score errors. This could have negative social costs, for example, inefficient allocation of credit.**