

# Leftovers from first class

Econ 220B

Spring 2008

# The basic competitors' dilemma

- Negative (pecuniary, or not social) externality on rival: better deal cannibalizes customers
- Incentive to internalize
  - How strong? Entry, etc.
- How to internalize/neutralize?

# Contract/agreement/understanding

- “Don’t perpetrate that externality!”
  - Contractual (court) enforcement?
  - Enforcement through threats/promises
    - Repeated play
    - Multi-market
    - Baseball bats
  - Legally but not conceptually important whether threats/promises are explicit

# Pseudo-Pigou taxes

- Institutional framework?
  - Access to “cooperation”: MLS
  - Patent or patent pool
    - “Real” or “sham”?

# Softening Competition

- Reduce (version of) cross-elasticity of demand
- Price-matching
- Switching costs

# Internalize through authority

- Merger between rivals
- Bulk of government antitrust work

# Weaken rival

- Dynamite
- Trade policy
- Vertical strategies
  - Exclusive dealing with customers, suppliers
  - Standard Oil: contracts re price to rival
  - Imaginative strategies
  - Often not easily distinguished from efficiency
    - Quantity discounts
- How distinct from softening rival's incentive?

# What is competition policy?

- Stop firms' attempts to "solve" their privately inefficient but socially beneficial competitors' dilemma
- Positively strengthen competition?



# “Regulation” trailer

- Price regulation to control monopoly power
- Health-and-safety regulation
- Transitions and boundaries

# Price regulation for monopoly

- Compare public enterprise
- Traditional cost-based regulation
  - Treatment of capital
- Incentive regulation and information-based economics of regulation literature
- Price structure as well as price level

# Health-and-safety regulation

- Customers: product safety, quality
- Workers
- Innocent bystanders
  - “Externalities”
- Cost-benefit analysis; value of life, etc.

# Transitions and boundaries

- Gain from shifting some activities out of (regulated?) monopoly ambit?
- Does this create “leverage” problems, and if so how to solve them?
- How much competition is enough to deregulate? How to manage?