

Policy and Competition

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How to structure micro policy

- Widespread view: protect/promote competition. Why?
- “Welfare theorems”?
 - Realism?
 - Lerner: not an affirmative case anyway
 - Real industries seldom get price close to MC
 - Regulators might do better, it would seem
 - Hurwicz: information?

What does “competition” do?

- Welfare triangles
- Selection by entry/exit and by share
- Internal efficiency
- What would we want?
 - Dissemination/use of better approach
 - Reward for its creation
 - “Tension”?
 - Does “monopoly” block these?

Welfare triangles

- Harberger
 - The profession's reactions
- Rent-seeking
 - Productive and unproductive
- Welfare trapezoids
 - *Propane* case in Canada

Selection by entry/exit and by share

- Order-statistics
 - Most valuable where least predictable
- Cournot calculations
- Melitz et al., mostly in trade. (Benefits of opening up markets.)
- Syverson: cement
- Evolutionary economics?
 - Nelson and Winter JEP 2002?

Internal efficiency

- Principal-agent models
 - Not so clear: Hermalin (1992)
- Dilbert-level behavioral generalizations
 - Borenstein-Farrell (2007)
- “Free cash flow” literature: Jensen;
Bertrand and Mullainathan (QJE 2001)

What does “competition” mean?

- Any (long-term) contract?
- Any multi-person firm?
- Efficiency?
 - Pricing by firm with “legitimate” market power
 - Entry into oligopoly
 - “Regulatory” concern with “cream-skimming”

Two presumptions

- Laissez-faire
- Competition
- How they resonate
- How they clash
- Treatment of uncertainty