

Revision Lecture

EC307 Competition Policy

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Course overview

1. Introduction to competition policy: institutions and concepts
Market definition
2. Dominance and market power (horizontal mergers)
Joint dominance and tacit collusion
3. Competition problems in two-sided and multi-sided markets
4. Cartels: Whistleblowers and leniency programmes
Vertical competition problems (vertical restraints)
The EC Microsoft case
5. Predatory pricing
Margin squeeze

Exam preparation tips

1. A statement of the obvious for revision:
 - i. Consult the lecture slides, your notes and recommended readings
2. Essay style should play to your strengths:
 - i. If you prefer prose/discourse, fine
 - ii. If you prefer algebraic derivations OK – but remember the questions are not intended to test mathematical ability, equations should illustrate concepts
3. What competition cases, if any, should I mention in a question which does not specifically refer to a case?
 - i. The exam is not specifically about memorising the details of cases presented in lectures
 - ii. You are free to cite any cases from the UK, EU and elsewhere as long as the case helps elucidate the question – but ensure the reference is accurate (name of case and year)
 - iii. Presentation of cases will improve quality of your essay – see how the authors of textbooks use case material to strengthen content

Exam preparation tips

4. Applications of microeconomic analysis and empirical analysis, in particular industrial organisation, are welcome
5. Quotations from textbooks should be used sparingly, the exam is not a test for memorising chunks of text from standard textbooks
6. Do not cite lecture slides – that is do not write “as Doyle (2010) shows in his lecture slides....”
 - i. Quotations from published academic papers are acceptable where they clearly reinforce your arguments – avoid gratuitous use of citations
7. Use the Harvard system when citing authors, e.g. As “Stiglitz (1988) shows...”
 - i. See Assessment 2 for URL link to Harvard system for further guidance

Past exam questions 2007-08

The sale of bundled and tied products is commonly observed. When is this practice potentially harmful for competition? In your answer provide a discussion of at least one case where tying has been found to be anticompetitive.

Interpretation: focus on bundling/tying – describe these

When is it potentially harmful? State metric is economic welfare (sum of surpluses) , note bundling is often non-harmful (give example), cite dominance (market power) and leveraging power from the tying product to the tied product is a case where it is potentially harmful (foreclosure arguments). Classic case: Microsoft seeking to tie its Windows Media player to its Windows operating system

Past exam questions 2007-08

When faced with allegations of predatory conduct, suggest how a competition authority should approach the investigation of such a complaint. Where possible motivate your answer with reference to one or more cases.

Define predatory pricing and show that an opportunity cost in the form of foregone profit is clear. Next show that exit is 'permanent' enabling the application of high prices post-exit.

Investigation needs to determine whether the alleged predator is dominant in the relevant market (or a closely related market), then if so – examine price relative to costs (ATC and AVC)

Authority needs to design tests to minimise false positives (Type I error – rejecting a true null hypothesis (no predation)) – so this rules in favour of tests where price is below average total costs as opposed to above (cases include American Airlines, BSKyB 2002, among many others)

Past exam questions 2008-09

In some industries vertically integrated firms compete against non-vertically integrated firms in downstream retail markets. If a vertically integrated firm in such a setting is dominant in the upstream market, what remedies might an anti-trust authority apply in the event the firm seeks to acquire a downstream competitor? What competition problems would the remedies prevent or deter?

Description of vertically integrated firms competing against non-vertically integrated firms – highlighting the possibility of the leverage of market power

Need to distinguish between discriminatory pricing and non-price methods of discriminating

Remedies to be discussed may range from divestiture of certain assets to undertakings committing to adhere to certain behaviour

Operational/functional separation should be considered

Case presented in lectures looked at functional separation applied to BT under competition law

Past exam questions 2008-09

Describe the three main steps in an ex post competition case investigation (that is a case where the alleged breach of competition law has taken place). How significant is the role played by market definition in such investigations? Do you think too much emphasis is placed on the role of market definition? Provide a case example of how a market has been defined by an anti-trust agency.

Three steps: market definition, market analysis and testing for dominance and the abuse of dominance (or other similar tests)

Market definition is critical and needs to be approached sensibly – illustrate with application of hypothetical monopolist test (SSNIP test)

Discussion of arguments made by some (e.g. Steven Salop) that anti-trust inquiries should be focussed on welfare criteria and efficiency rather than identifying markets – in other words it is the effect of behaviour on welfare (actual or prospective) that should matter and this does not necessitate markets to be defined in accordance with concepts such as the SSNIP test

Cases are numerous

Final Comment

Past questions, Future questions

Typical notice on investment sites:

Past performance is not a guide to future returns

Past exam questions reflect the material covered in the relevant year

The course has evolved and some topics have changed and/or the focus has changed

The best form of preparation is to focus on the topics from this year's syllabus

Good luck!