

Ch. 7 : predation, monopolisation and other abusive practices

Plan of the lecture

- Entry deterrence / predation (strategic behavior).
 - Predatory prices.
 - No- price monopolization behavior
 - Over-investment in capacity.
 - Product proliferation.
 - Bundling and tying.
 - Exclusive contracts.
 - Foreclosure.
- Price discrimination

- **Monopolization (in US, abuse of dominant position in EU)**

(**exclusionary practices**) practices carried out by a **dominant** firm with the aim of detering entry or forcing the exit of rivals in the same market or related markets.

- Common temporal pattern:

- Aggressive initial phase to reduce (actual or expected) profitability for the (actual or potential) competitors.



Sacrifice of short-run profit

- Recovery period: once (actual or expected) competition is eliminated, exploiting market power



Higher profit in the long-run.

- Recent attention:

- Processes of liberalisation, privatisation, and deregulation have resulted in several asymmetric sectors having an “incumbent” facing potential entry (ex. telecommunication and electricity).
- Growing importance by sectors which exhibit network effects (ex. telecommunication, computer applications..). Lock-in effects for consumers, very difficult for a new entrant (ex. Linux).

N.B.: Difficult topic in competition policy:

- Exclusionary practices cannot be easily distinguished from competitive actions.

Predatory pricing

- A dominant firm sets low prices to force rivals' exit (main reason for that triggered the Sherman Act).
- Only recently a convincing theory appeared:
 - **Reputation models.**
 - **Signalling models and “Signalling jamming”.**
 - **Financial market models** (financial constraints for whom suffers from predation).

➔ A common feature of these theories is the presence of **asymmetric information**. Without asymmetric information, there is no rationale for predation.

Search for a theory

- McGee (1958): we should not expect predatory pricing:
 - Criticism to the “**deep pocket**” theory: why should not the “prey” obtain funds to resist the predator’s attack?
 - Predatory pricing is inefficient (it destroys industry profits): merging with the rival(s) would be more profitable.
- The counter-objection of Yamey (1972):
 - Predatory pricing discourage further entry (a merger would encourage further entry)
 - Predatory prices can allow to acquire the rivals at a lower price: predation and merger as complements (Saloner, 1987)
- BUT: until the '80s lack of a formal theoretical argument.