

---

# Econ 100A: Intermediate Microeconomic Analysis Lecture 18

Instructor Galina A. Schwartz  
University of CA, Berkeley

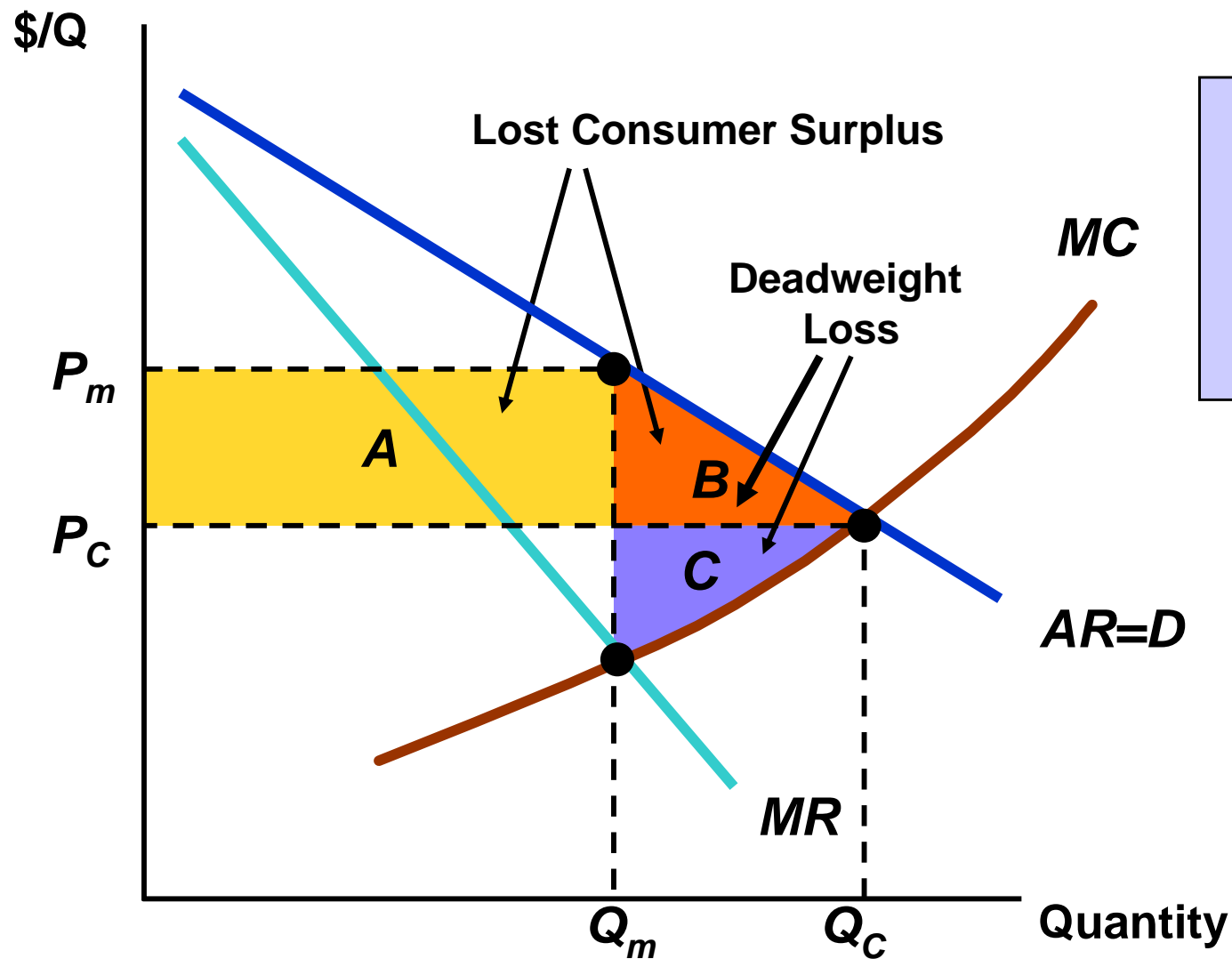


# Plan for today

---

- More about markets with power:
  - Social costs of market power:
    - Monopoly
    - Monopsony
  - Welfare considerations
  - Regulating natural monopoly
  - Antitrust laws:
    - Sherman Act (1890) Sections: 1. prohibits price fixing and other restricts on trade 2. prohibits attempts to monopolize
    - Clayton Act (1914): Prohibits mergers and acquisitions if they breed monopoly power; prohibits **predatory pricing**,
    - Robinson-Patman Act (1936): Prohibits price discrimination if it breeds monopoly power
    - Federal Trade Commission (FTC) (1914): law enforcement

# Social Costs of Monopoly: Deadweight Loss from Monopoly Power



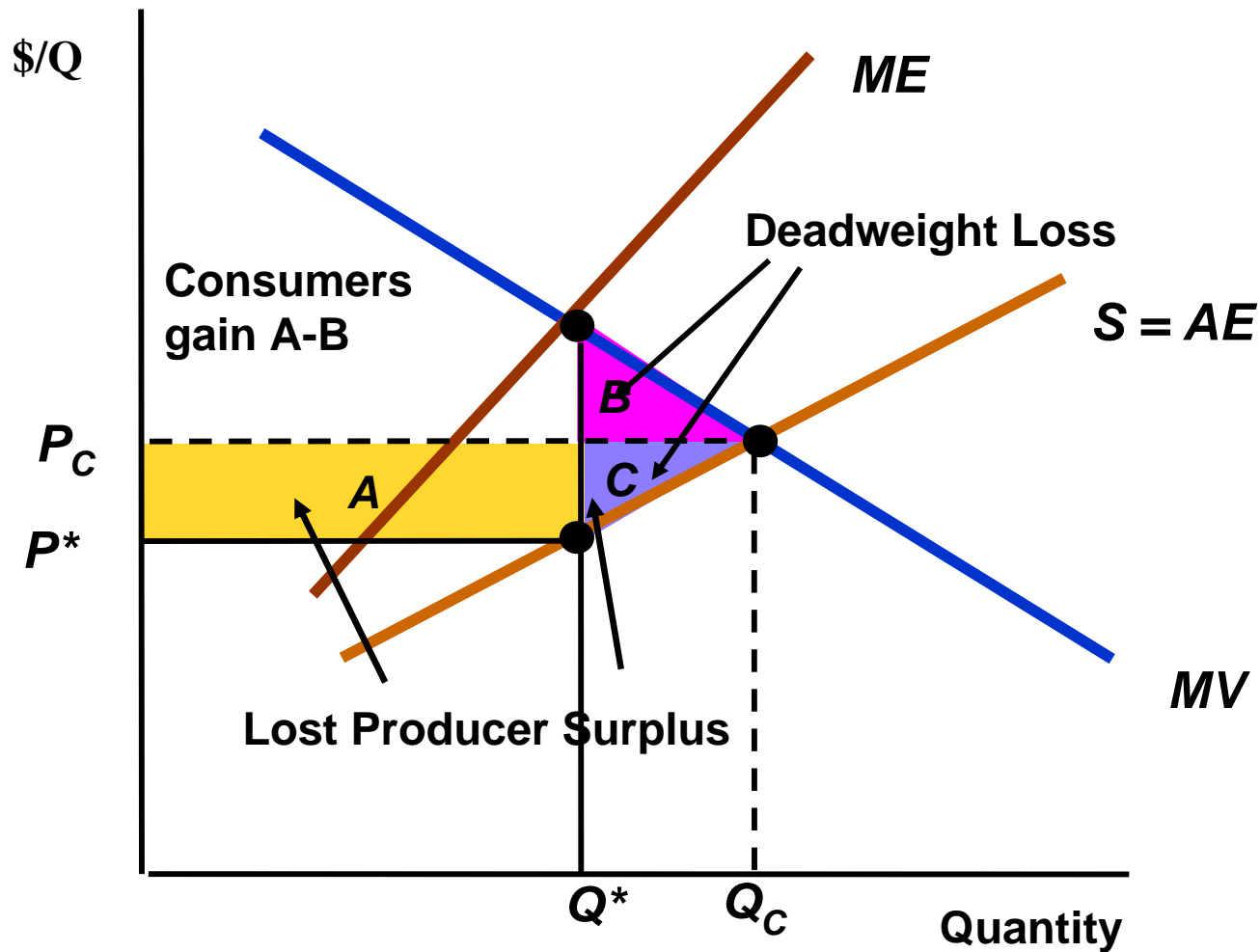
Because of the higher price, consumers lose  $A+B$  and producer gains  $A-C$ .

# Social Costs of Monopsony Power

---

- If monopsony power → lower prices and lower quantities are purchased. With monopsony, we expect:
  - sellers to be worse off
  - buyers to be better off
- To address the effects of monopsony power use producer and consumer surplus (& compare to competitive market)
  - For sole monopsonist:
    - Quantity: at  $ME = MV$  & Price: from demand
  - For competitive market:
    - quantity and price determined from  $S = D$

# Deadweight Loss from Monopsony Power



# Bilateral Monopoly = an Interaction of Monopolist & Monopsonist

- Bilateral Monopoly occurs on the markets where there is only one buyer and one seller
  - seller is a monopolist
  - buyer is a monopsonist
- Pure bilateral monopoly is rare. However, markets with a small number of sellers with monopoly power selling to a market with few buyers with monopsony power is more common
  - In general, monopsony and monopoly power will counteract each other

# The Social Costs of Monopoly: on Top of the Deadweight Loss

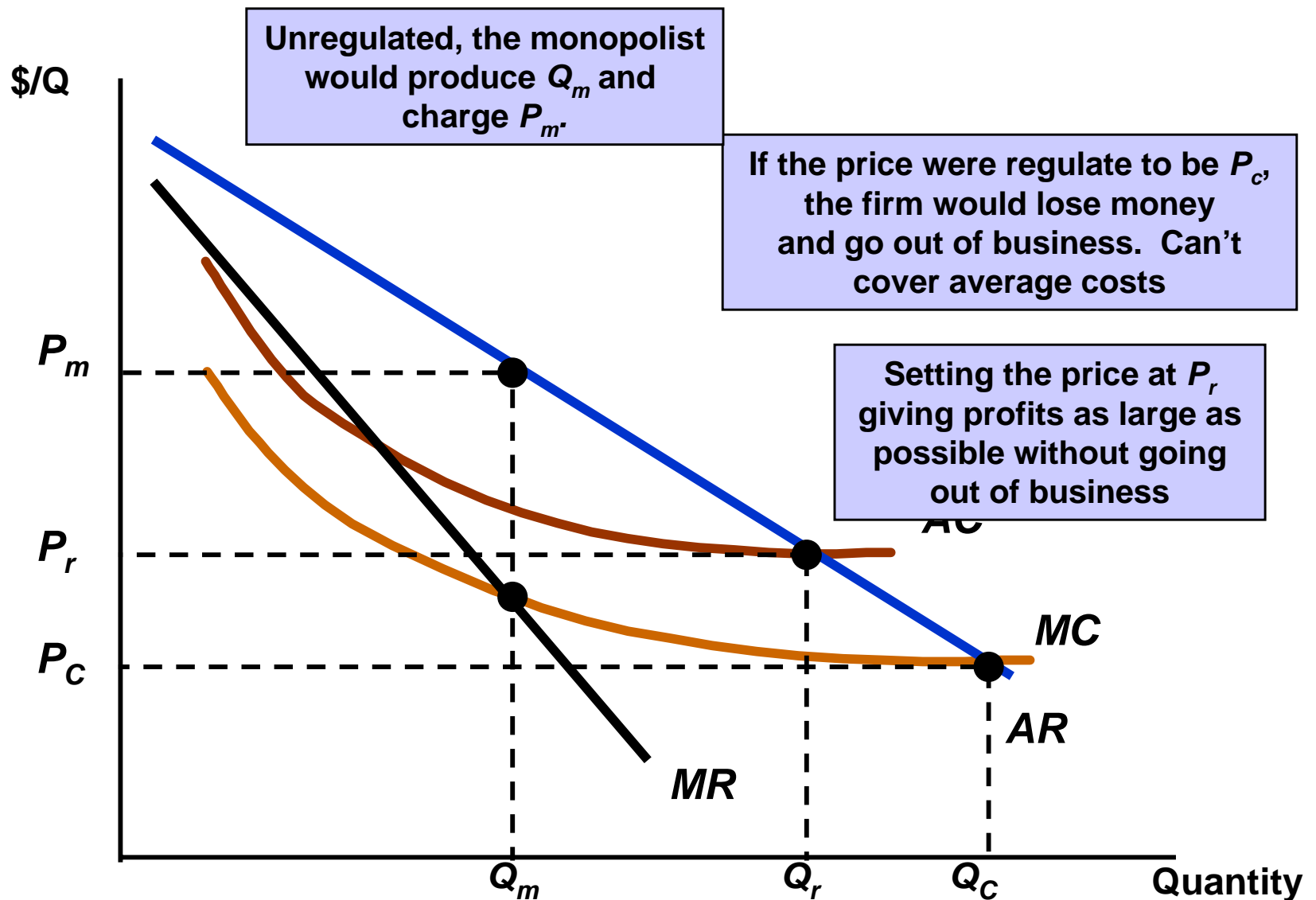
- Social cost of monopoly is likely to exceed the deadweight loss, due to rent seeking
- Rent seeking, i.e., firms spending resources to gain / increase monopoly power:
  - Lobbying
  - Advertising
  - Building excess capacity
  - Engaging in legal battles

# Natural Monopoly

---

- Conditions for Natural Monopoly:
  - A firm can produce the entire output of an industry at a cost lower than what it would be if there were several firms
  - Usually arises when there are large economies of scale (then, splitting the market into two firms results in higher AC for each firm than when only one firm was producing)

# Regulating the Price of a Natural Monopoly



# How to Limit Market Power?

---

- How to limit market power & anti-competitive behavior?
  - 1. Tax away monopoly profits and redistribute to consumers, but:
    - Difficult to measure and find all those who lost
  - 2. Direct (price) regulation of natural monopolies
  - 3. Keep firms from acquiring excessive market power (via antitrust laws)

# Limiting Market Power:

## Sherman Act, Section 1 & 2

---

- Sherman Act (1890) [Section 1]
  - Prohibits contracts, combinations, or conspiracies in restraint of trade
    - Explicit agreement to restrict output or fix prices
    - Implicit collusion through **parallel conduct**
      - Form of implicit collusion in which one firm consistently follows actions of another
- Sherman Act (1890) [Section 2]
  - Makes it illegal to monopolize or attempt to monopolize a market
  - Prohibits conspiracies that result in monopolization

# Limiting Market Power:

Clayton Act (1914)

Robinson-Patman Act (1936)

---

- Clayton Act (1914)
  1. Makes it unlawful to require a buyer or lessor not to buy from a competitor
  2. Prohibits **predatory pricing**
    - The practice of pricing to drive current competitors out of business and to discourage new entrants in a market so that a firm can enjoy higher future profits
  3. Prohibits mergers and acquisitions if they “substantially lessen competition” or “tend to create a monopoly”
- Robinson-Patman Act (1936) (amendment to the Clayton Act)
  - Prohibits price discrimination if it causes buyers to suffer economic damages and competition is reduced

# Limiting Market Power: Federal Trade Commission (FTC)

- Federal Trade Commission Act (1914, amended 1938, 1973, 1975)
  - Created the Federal Trade Commission (FTC)
  - Supplemented the Sherman & Clayton Acts (by fostering competition through a set of prohibitions against unfair and anticompetitive practices), such prohibition of
    - deceptive advertising and / or labeling
    - agreements with retailer to exclude competing brands

# Enforcement of Antitrust Laws:

## Three avenues

---

1. Department of Justice (DoJ), Antitrust Division
  - Fines levied on businesses
  - Fines & imprisonment levied on individuals
2. Federal Trade Commission (FTC)
  - Voluntary understanding
  - Formal commission order
3. Private Proceedings: individuals or companies can:
  - Sue for *treble* damages (threefold damages)
  - Ask for injunctions to force wrongdoers to cease anticompetitive actions

# Enforcement of Antitrust Laws: US and EU

---

- US antitrust laws are the strictest & the most far reaching in the world
  - Some claims that this hinders US competing in international markets
- European Union (EU) & the evolution of antitrust enforcement methods:
  - EU and US antitrust laws are similar (despite some procedural & substantive differences)
  - Europe only imposes civil penalties

# Summary of today & plan for the next lecture

---

- Today: we continued analyzing monopoly
  - Social costs of
    - monopoly
    - monopsony
  - Regulations of monopolies
  - Antitrust laws:
    - Sherman Act (1890)
    - Clayton Act (1914)
    - Robinson-Patman Act (1936)
    - Federal Trade Commission Act (1914)
  - Enforcement of antitrust laws
    - US antitrust is the toughest in the world
    - US & EU antitrust laws
- Your preparation: read ch. 10 and 11
- Next lecture: Ch. 11
  - Pricing with market power
- Have a Nice Day