

# The unkindest cuts?

*The Economist*

2009.8.22

- 廠商追求利潤
  - 勾結, 聯合壟斷 (對消費者不利)
  - 創新, 降低成本 (對消費者有利)
- 政府管制應針對前者, 但有時候, 前後兩者很難區分
- 若廠商降價是因為創新, 而管制者誤以為這是消滅競爭對手的策略, 而加以管制, 最終對消費者反而不利

## A monopoly explanation

- In the early 1970s Ronald Coase complained: an economist faced with a business practice that he cannot fathom "look for a monopoly explanation"
- A lot has changed in the 37 years since the lament
- Monopoly explanations now compete with the theories that see the same behavior as **helpful to consumer**

## Antitrust against Intel

- The EU in May 2009 fined Intel US\$1.44 billion for illegally using **predatory pricing** against AMD
- **predatory pricing**: Setting an artificially low price, e.g., below cost, so as to damage rival firms
- Intel rejects the charge and plans a court appeal

## Regulations

- U.S.: The Sherman Antitrust Act of 1890
- Low prices are one of the fruits of competition, so penalizing business giants for price cuts would be perverse
- Establishing that a firm is guilty of predation is difficult
- Even where a reliable price-cost test is feasible, failing it need not imply sinister intent

## Reasons to forgo short-term profit

- Firms with a new product may wish to pick a lossmaking price to defray [pay] the cost to consumers of switching
- Firms may expect their own costs to fall as they perfect the production process
- So losses would be a licit (permissible) investment in future profits

# Bundling

- Predation is even trickier to uncover when goods are sold together

## Rebates

- Another tactic: Firm may offer rebates to customers that reach certain sales targets
- This reflect suppliers' **economies of scale**
- **economies of scale**: long-run average total cost falls as the quantity of output increases
- Suppliers want retailers to promote their products and keep plentiful stocks
- Retailer's profits are bigger once the target is met



## Intel's rebates

- EU reckons that Intel's use of such rebates was nefarious (unlawful)
- For example: \$1 for up to 9 units, and a unit price of 80 cents for sales of ten items or more. Hence the price of the tenth unit is minus one
- EU thinks that a smaller rival (AMD) might not be able to offer a similar rebates

- EU's trustbusters cannot feel too sure of themselves
- AMD is still alive and kicking
- Trustbusters have moved away from the practice that so concerned Mr Coase in the early 1970s, but there is a long way to go