

# The unkindest cuts?

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*The Economist*

2009.8.22

- **A formidable alliance takes on Facebook**, *Economist*, 2020/12/12
- Letitia James, New York's attorney-general: "By using its vast troves of data and money Facebook has squashed or hindered what the company perceived as potential threats. They've reduced choices for consumers, they stifled innovation and they degraded privacy protections for millions of Americans"

- 廠商追求利潤, 可能使用掠奪性訂價 (predatory pricing) 以打倒對手
- 若是如此, 政府應加管制
- 但是否為 predatory pricing, 不易認定

# Look for 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 then
- **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

- 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

- 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



- 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