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Lecture 21: 5/3/04

Antitrust/Fair Competition
Intro-main concerns
Merger-Varta Bosch
Airline
Monopolization – Microsoft
Mechanics of M&A
Joint Venture
Exemptions

- Antitrust law = default
- If government says you have to do it, then that's that
- i.e. only one hospital
- Trend in financial services is that gov't has been pulling back
- US is an outlier in the antitrust realm but EU is shifting towards us.
- Dual system between public and private system
- Who administers the antitrust laws?

Three evils:

1.) Collusion: 2 or more economic players who are supposed to be competing but figure they would do better if they didn't; agreement to fix prices.

"Bright line"

2.) Monopolization: the entity that is so big that is can abuse its power.

- rule of reason" analysis
  - almost never sanctioned by criminal charges
  - a.) "market power"
  - b.) "abuse of monopolization
- most people are big because of super skills

3.) M&A

- Before you engage in M&A you have to get approval in advance.
- More speculative inquiry
- Forward-looking

Varta Bosch
"Markets"

product defn.
geographic

- the party goes in to seek approval will define the market very broadly
- How do you measure market power?
- Look at market share:
- Barriers to entry/ “wing player”
    - This is more complicated in the international area
- Microsoft is a world-wide monopoly
- Collision-Airlines:
    - Some big airlines are floating big prices to see how other companies will react in the future.
    - Signaling behavior: gov’t has a hard time proving this
    - You can follow the market in prices, just not facilitate it.
    - Trade associations is a big problem
    - The very 1st company that comes forward in collusion will get more lenient offenses. (extends to companies not individuals)
- Other collision: somebody has a good lawyer
- In an antitrust case, if the person doing the suing wins, he gets 3 times damages and attorney’s fees.
- The law is designed to keep the bad people away and favors the complaining party “game of chicken”

- Monopolization-Microsoft

- Why would you say that in this case market power = market shower?

    - Network effect (every time a consumer uses the product it makes it more valuable because other people use it.)
    - Market share + network effect = market power

- Example 1: Alcoa steel manufacturer
- Example 2: Studios have bad movies
    - Studios have a monopoly; b/c independent studios can’t sell you a really good movie.
- Example 3: IBM gave colleges computers for really cheap, but competitors said IBM was not being nice by selling cheap mainframes because putting them in college is encouraging people to use computers.