Practice problem set 22

Antitrust

Industrial Economics
Kosmas Marinakis
ICEF - HSE

This problem set constitutes recommended material for the relevant lab. The choice of tasks to be presented instructionally in every lab is in the discretion of the individual teacher. Students are expected to work on practice problems, however, are not required to submit written solutions. It is non-negotiable policy in this course to not provide hand-outs with the solutions of practice problem sets.

1. In 1948, the Supreme Court in the United States found a quantity discount scheme of Morton Salt to be illegal under the Robinson-Patman Act. Morton Salt, a virtual monopolist supplier of salt to downstream retailers, had offered quantity discounts to all its customers but only five retail firms purchased sufficient quantities to obtain the discount. The Court commented that 'the legislative history of the Robinson-Patman Act makes it abundantly clear that Congress considered it to be an evil that a large buyer could secure a competitive advantage over a small buyer solely because of the large buyer's quantity purchasing ability.'
   (a) Define price discrimination and describe its different forms. When is it possible to price discriminate among customers? What is the motivation for a firm to charge different prices among its customers rather than charge a uniform price? You may use diagrams to support your answer as appropriate.
   (b) In what sense might quantity discounts harm competition or create monopoly, when compared to a uniform pricing policy?
   (c) Describe the welfare effects of the different forms of price discrimination. You may use diagrams to support your answer as appropriate. If an upstream firm offers quantity discounts to downstream firms, is welfare likely to rise or fall? Explain your answer.
   (d) Should price discrimination be illegal"? Explain your answer.

   UoL: 2012 zb

2. In our discussion about the antitrust laws, we referred to the burden of proof for every case that is prosecuted. What exactly is the burden of proof and who bares this burden?

   End-module 2 Exam – December 2016

3. Two firms are competing for a market. One of the firms applies predatory pricing under the excuse that its costs have been dropping.
   (a) Describe what 'predatory pricing' is.
   (b) Explain under what law this can be prosecuted in the US and in Russia.
   (c) If the other firm follows the predator in to a price war, which model of price wars we have examined in the course describes the situation better?

   End-module 2 Exam – December 2016

4. Market power could be present in several market structures.
   (a) Provide a thorough definition for the term 'market power'.
   (b) Prove that the existence of market power does not necessarily guarantee positive profit.
   (c) Explain under what kind of cost structure market power guarantees positive profit?

   End of 2nd Module Examination – 2012

5. Consider the Lerner's index, L, which measures the percentage deviation of price from the marginal cost. Show that in Cournot competition, L is a function of the market share and the elasticity of demand.

   1st Module Examination – 2013

6. According to the Sherman Act
   (a) Section I refers to "parallel conduct". What is meant by this term?
   (b) Section II refers to market monopolization. When it is OK to monopolize the market and when it is not OK?

   Final Exam – 2015