



Economics of Competition, Monopoly, and Market Power

Antitrust
Eric E. Johnson
ericejohnson.com



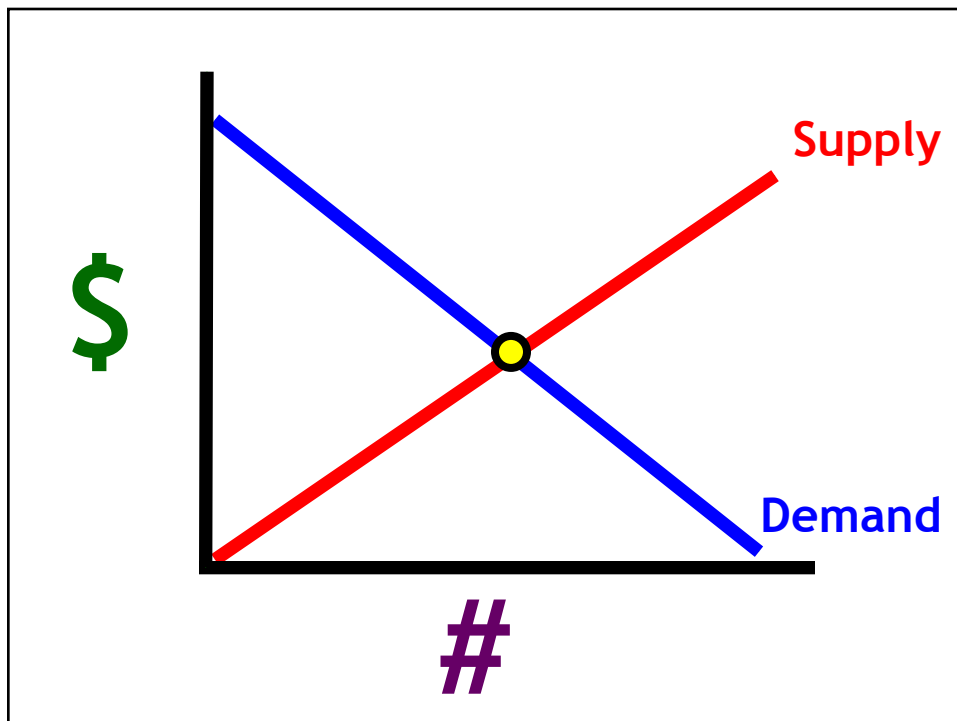
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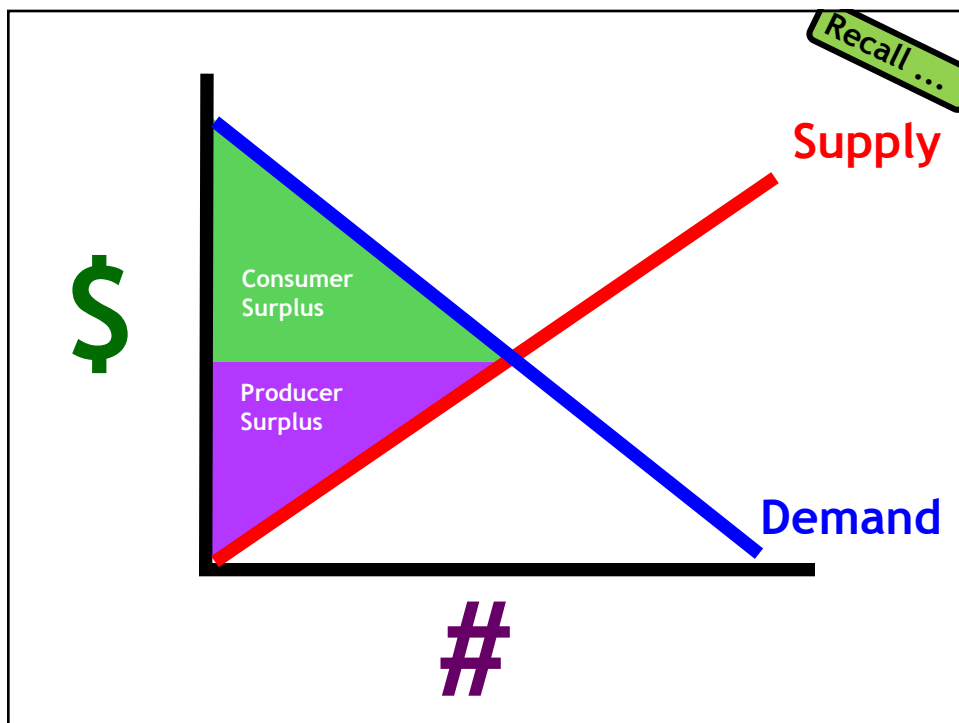
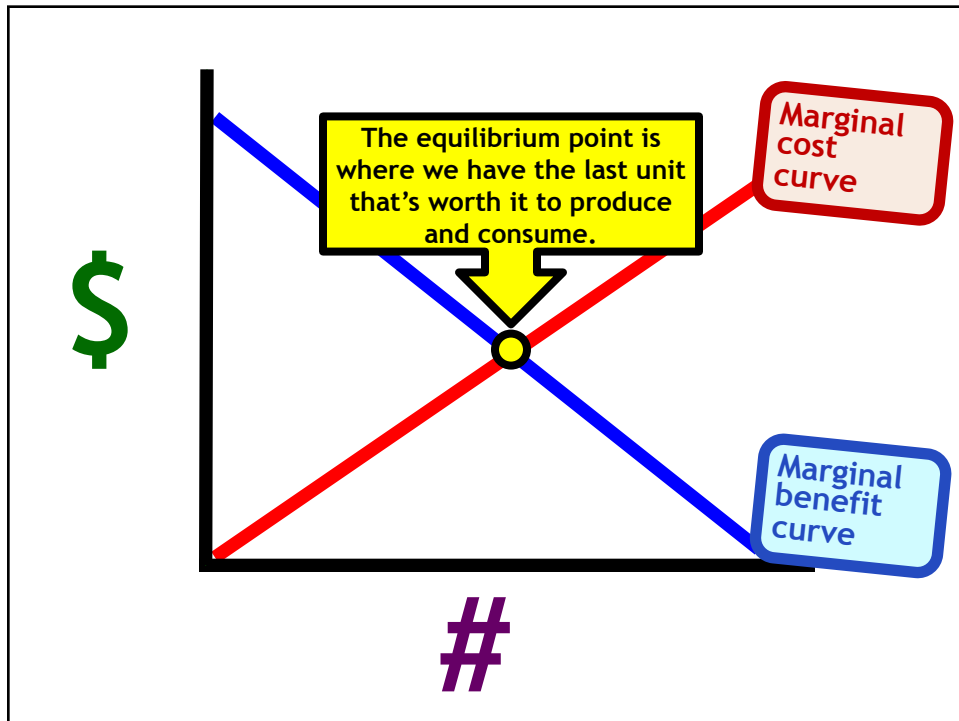
Thoughts on POE Ch. 8

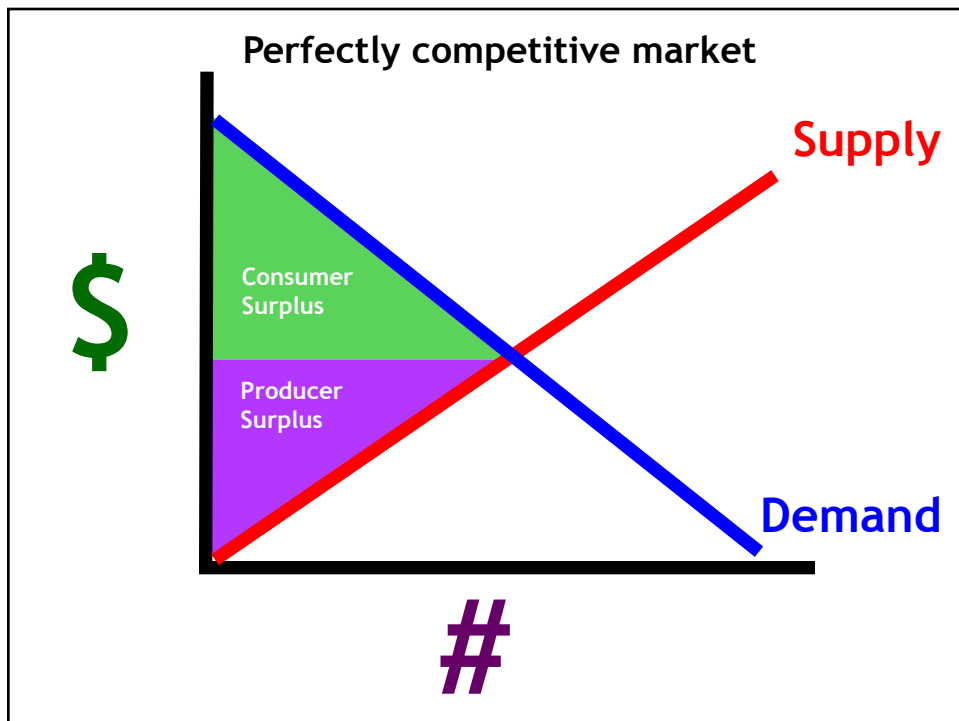
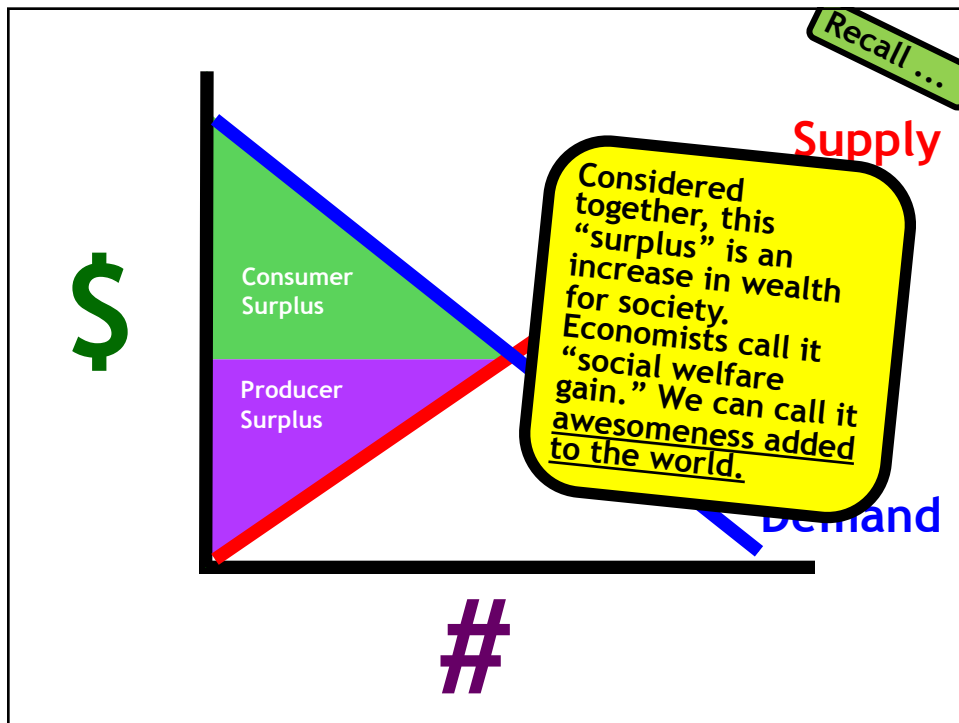
- Again, we're "overlearning" the economics ...
- But this will help us understand what's at stake with antitrust law.
- It's a necessary building block for monopoly economics.
- Combined with the concepts of monopoly economics, it will help us understand market power, dominant firms, oligopoly, etc.

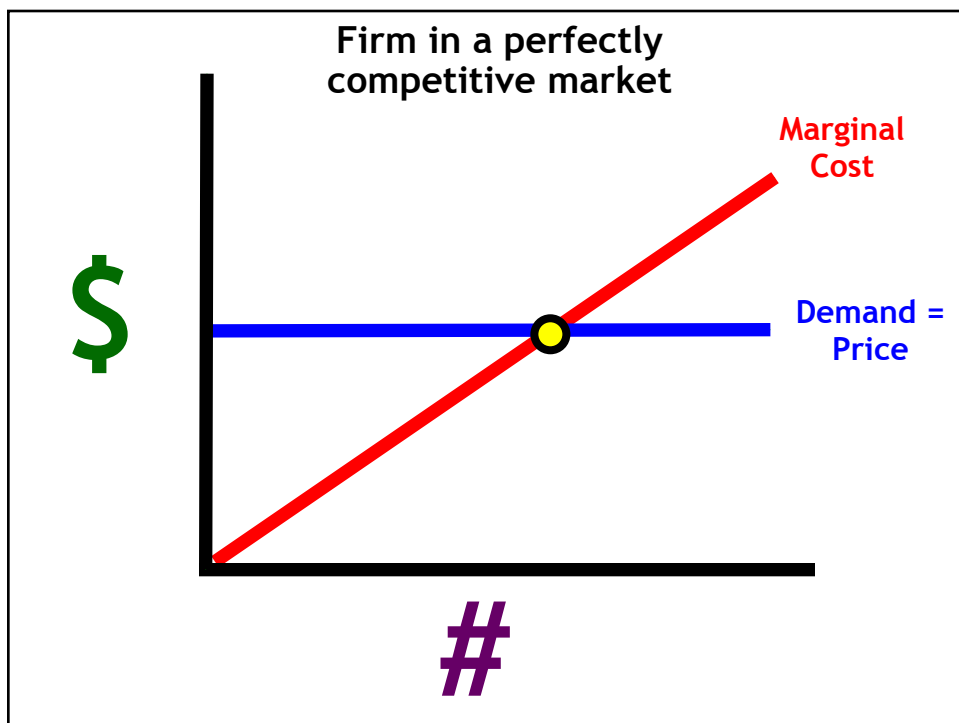
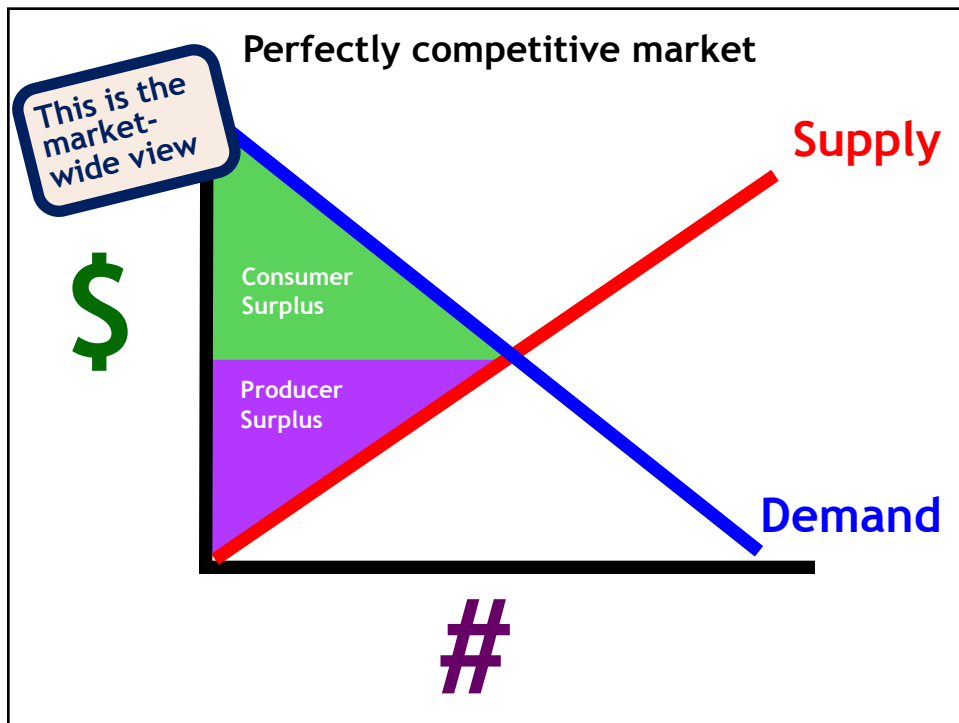
Thoughts on POE Ch. 9

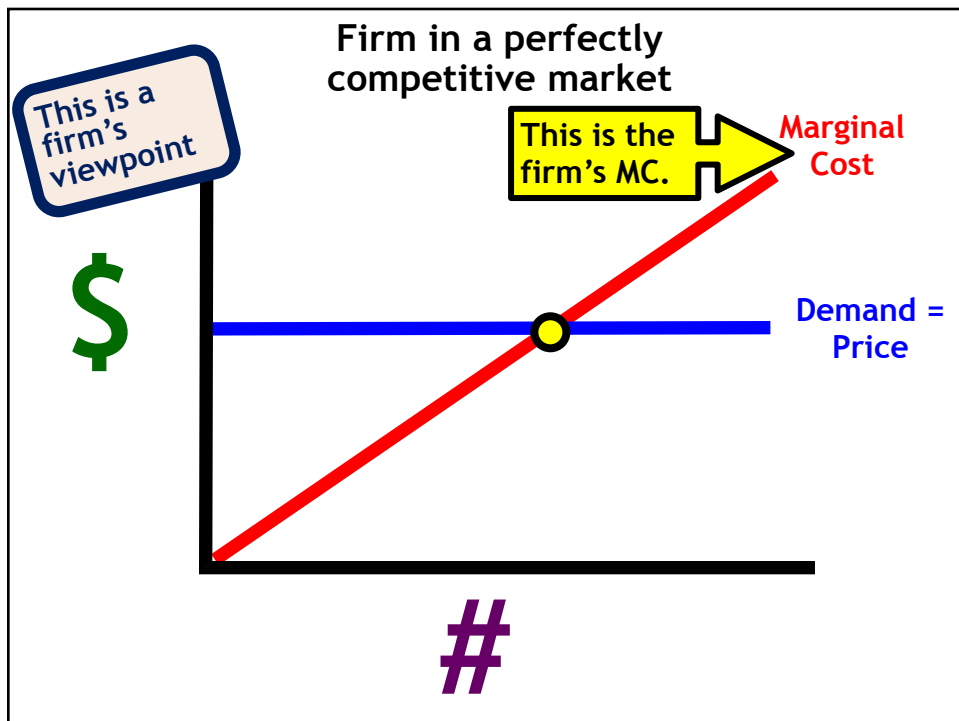
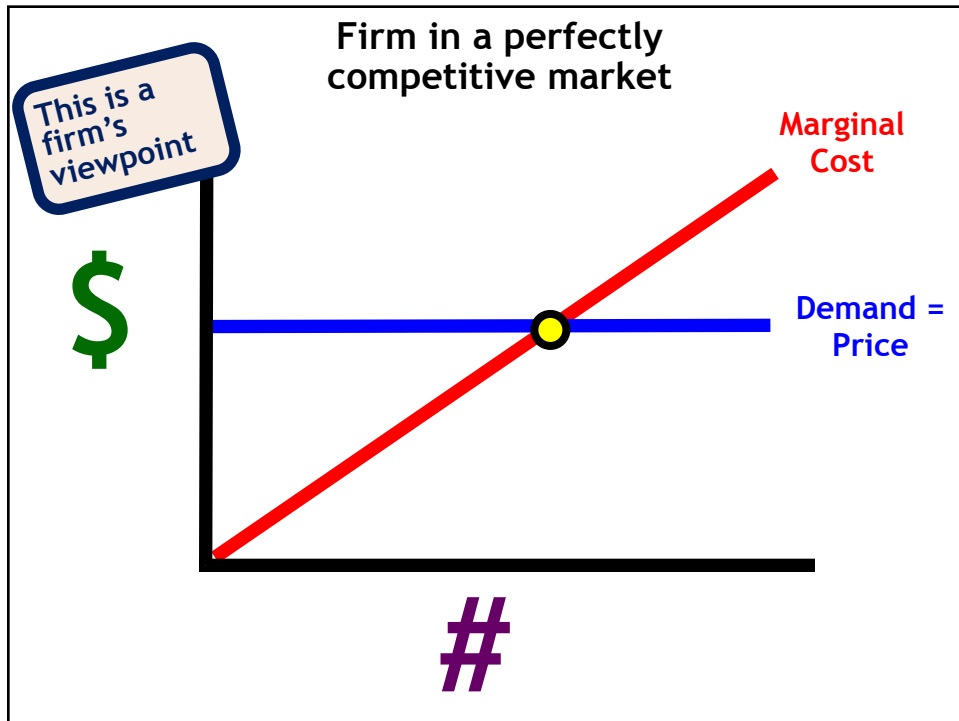
- With previous chapters in POE, I said we were “overlearning” the economics ...
- That’s still true in large part. But now in Ch .9 we’re underlearning content at the same time.
- It’s still true that we care more about conceptual understanding than math. But this chapter is heavy on conceptual material, and when it comes to that, this chapter glosses over a lot that is important.
- I’m not going to go through the chapter and exhaustively point out perilous gloss and places needing caveats and nuance needed ...
- just remember that it’s about giving us an introductory framework, and, in particular,
- don’t use this chapter as a source for any statement about the law!

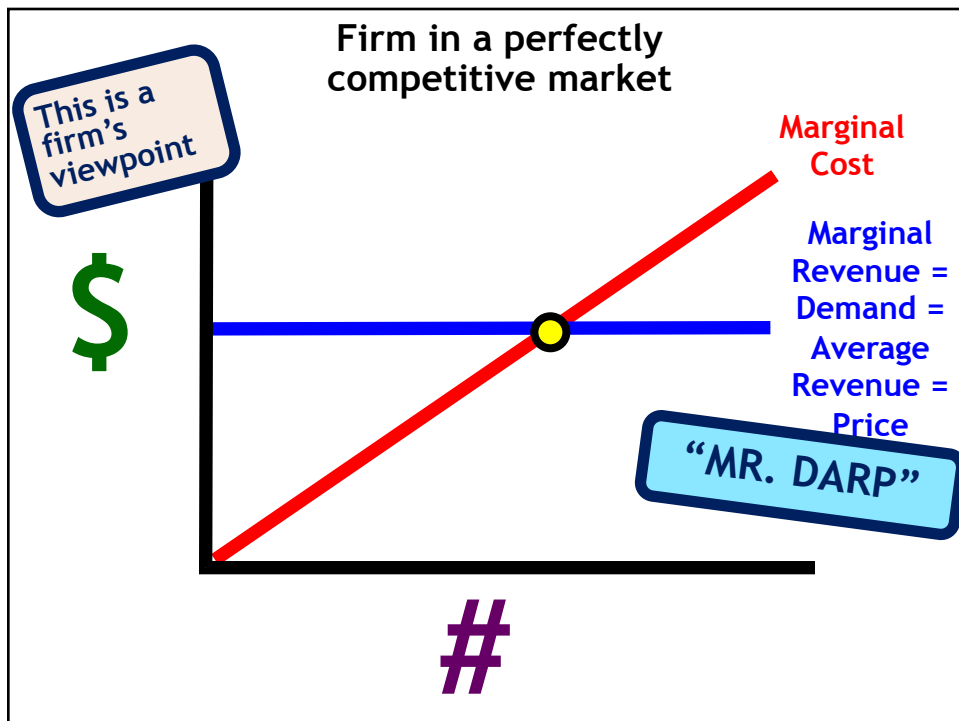
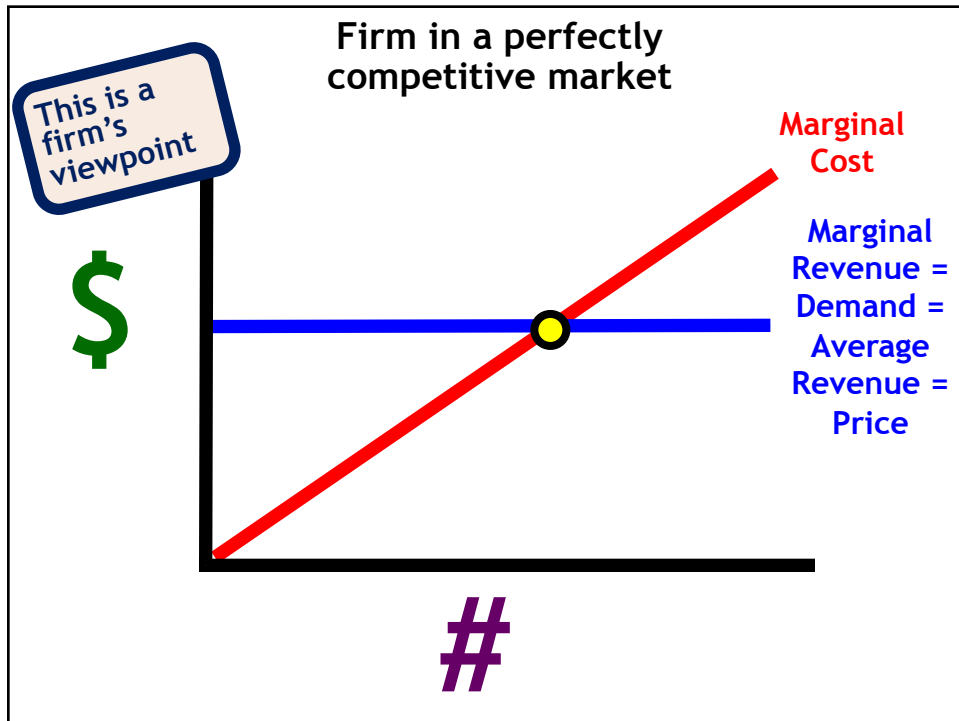


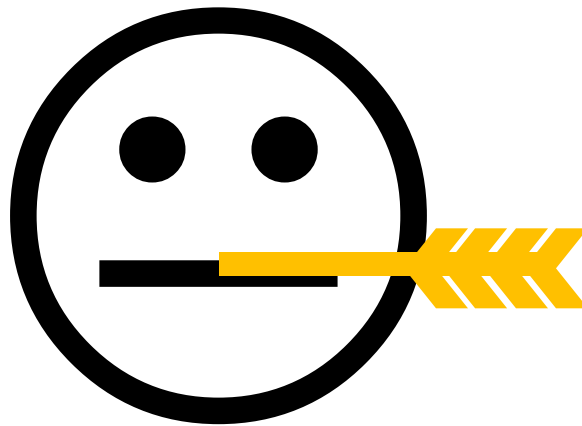




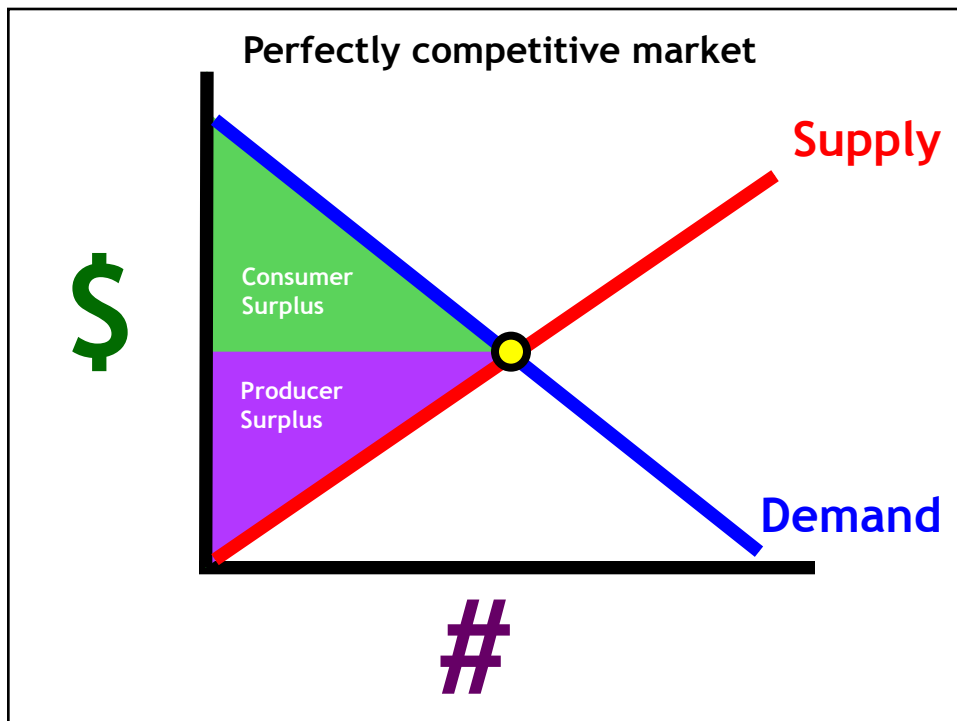


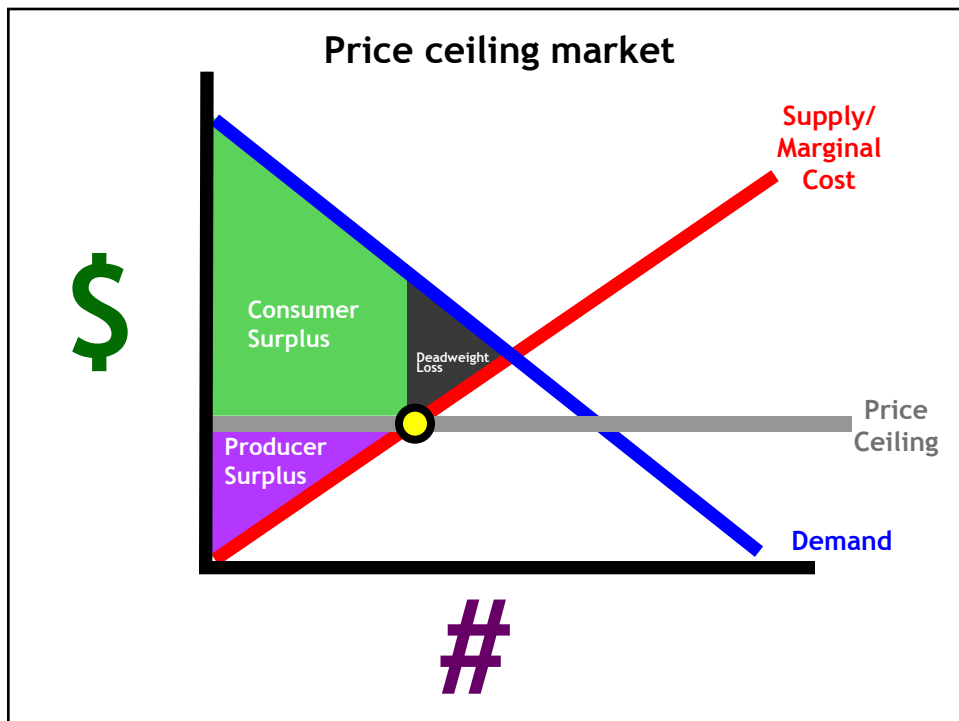
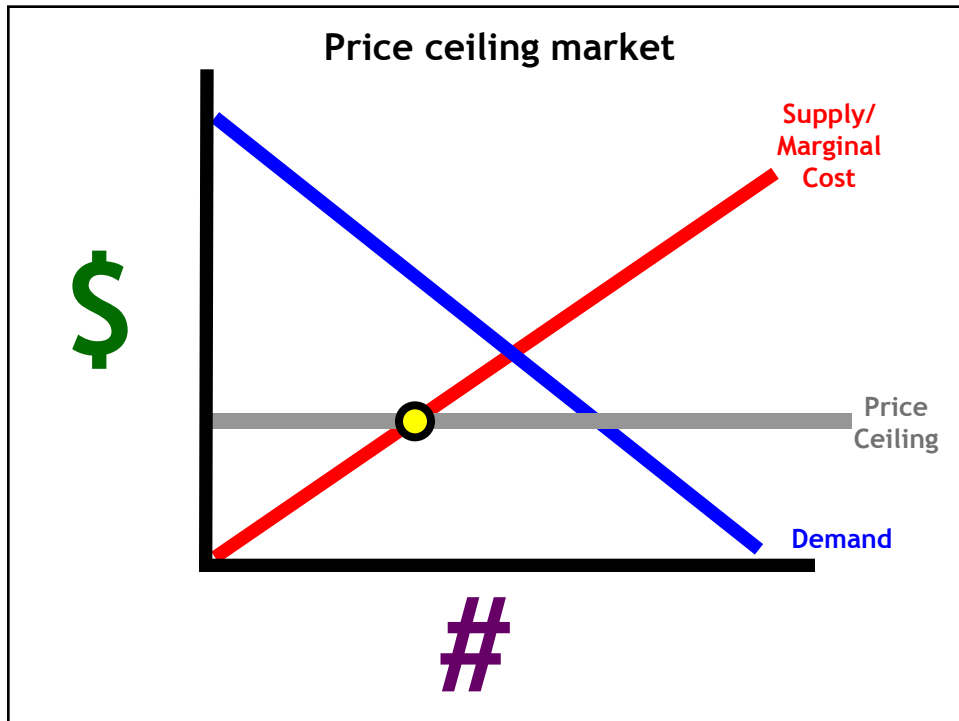


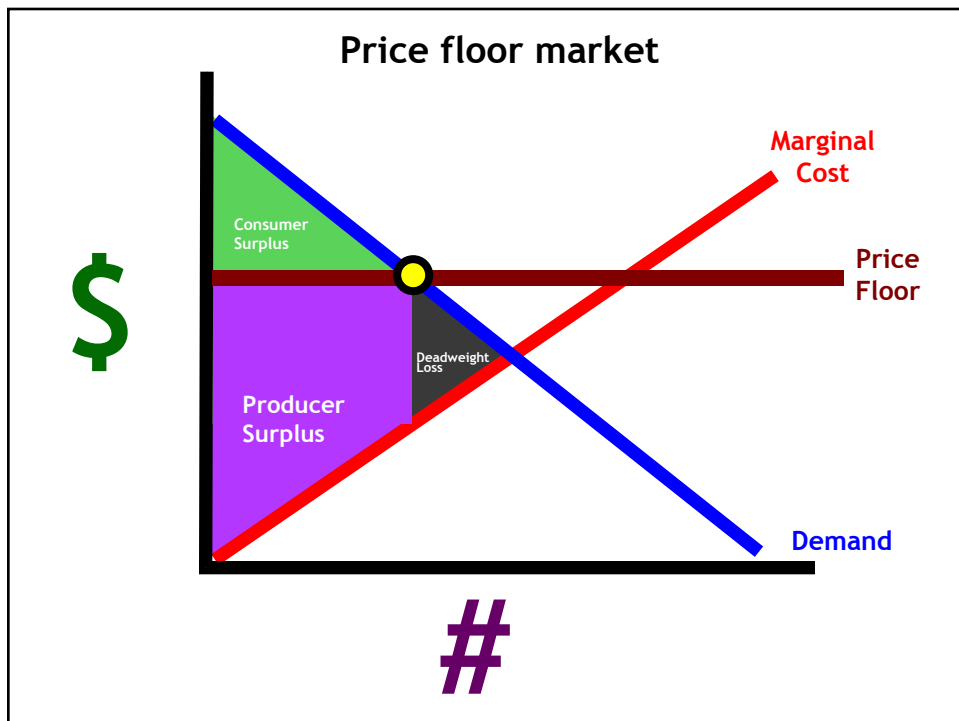
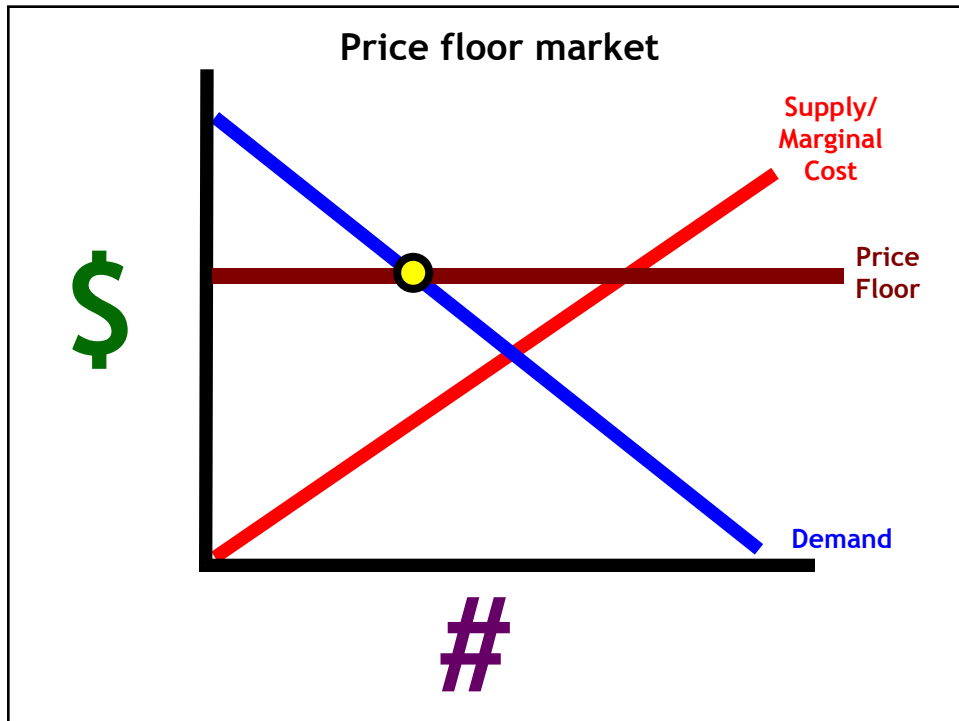


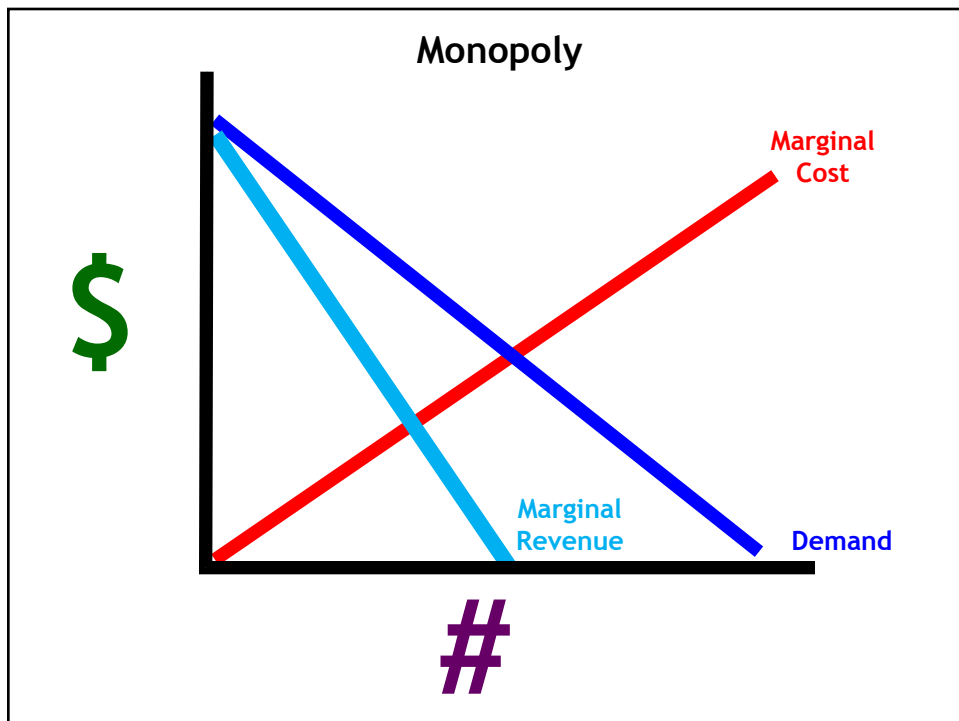
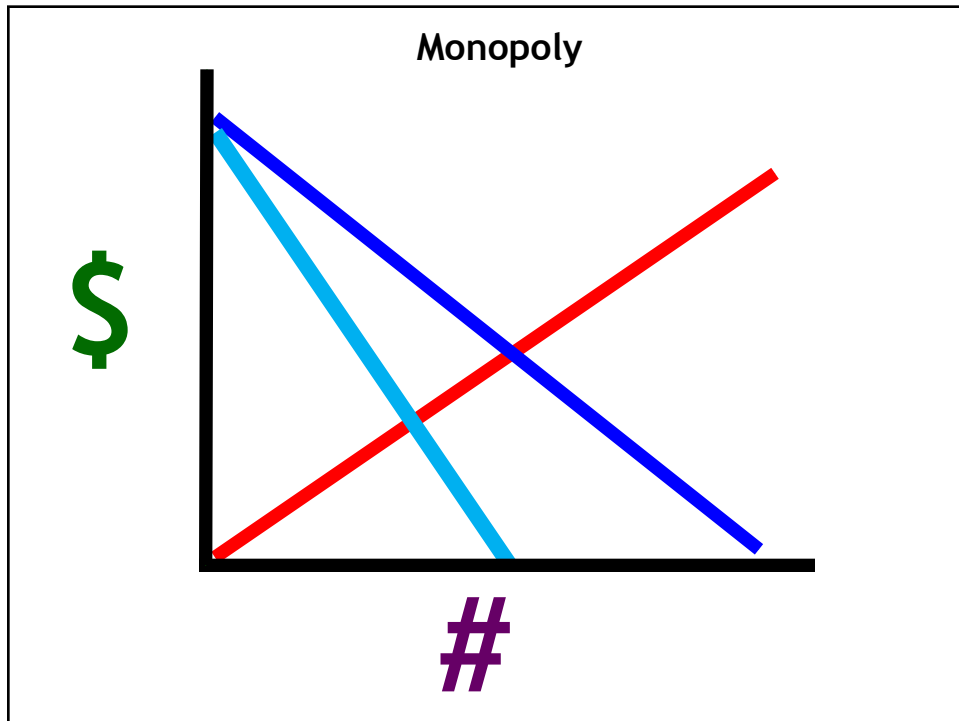


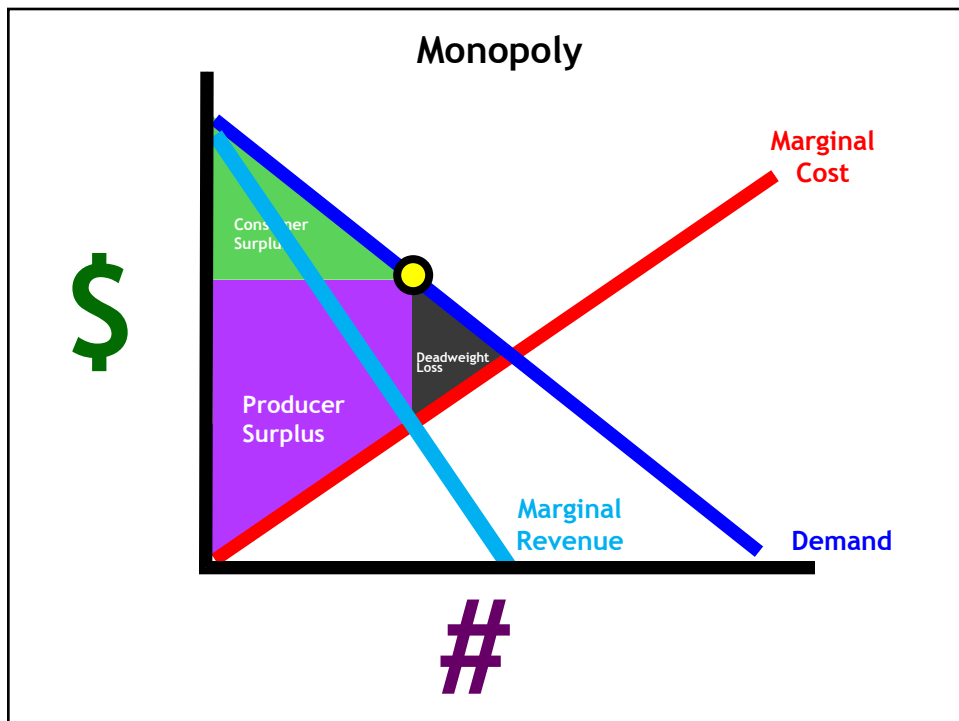
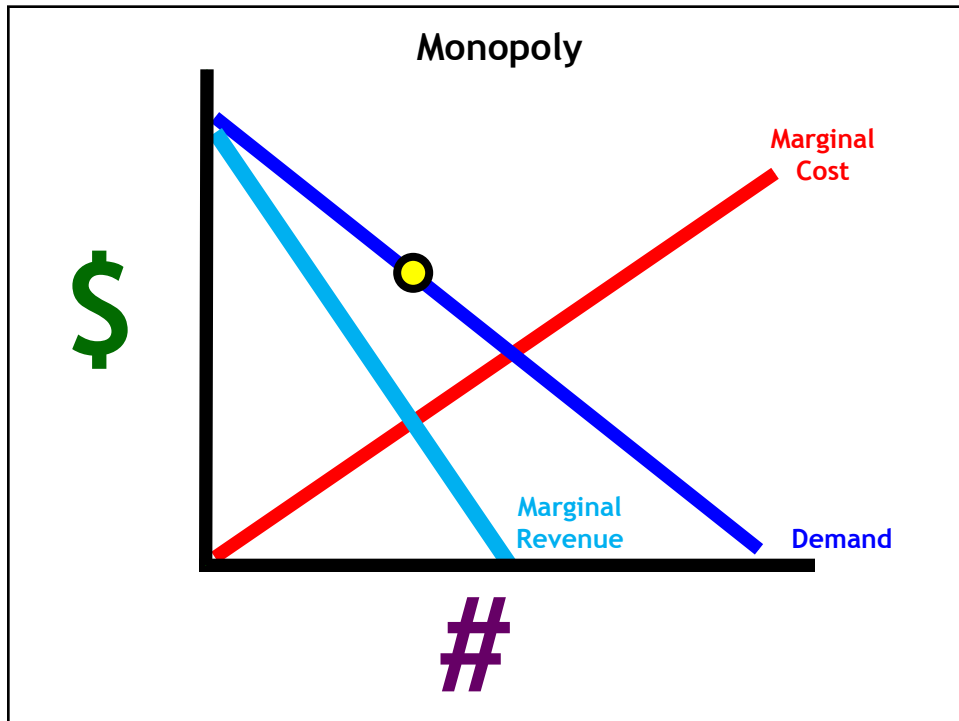
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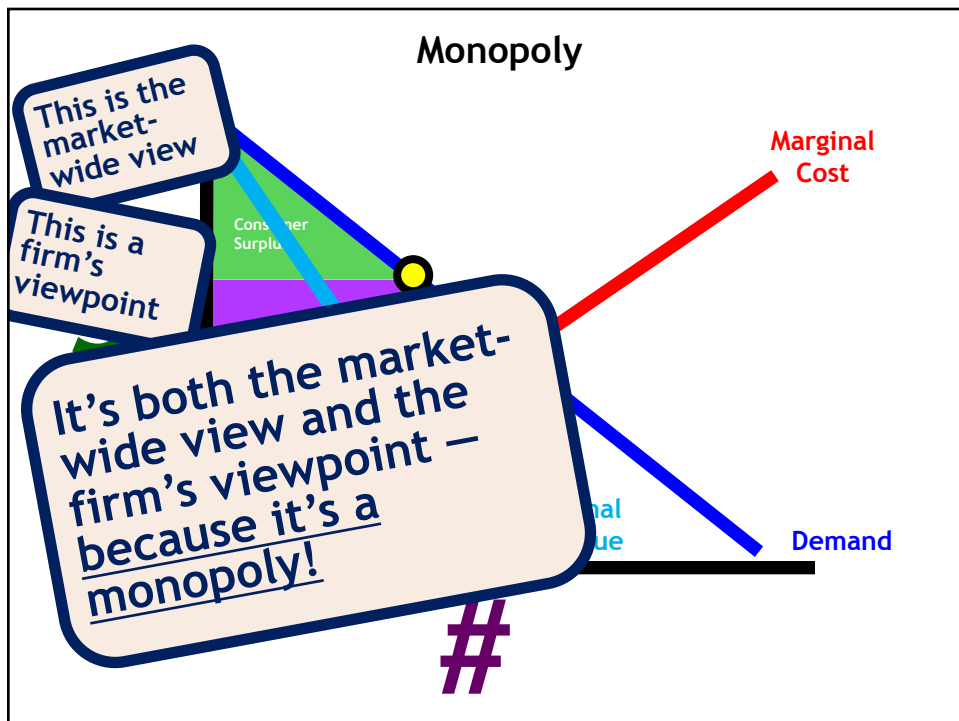
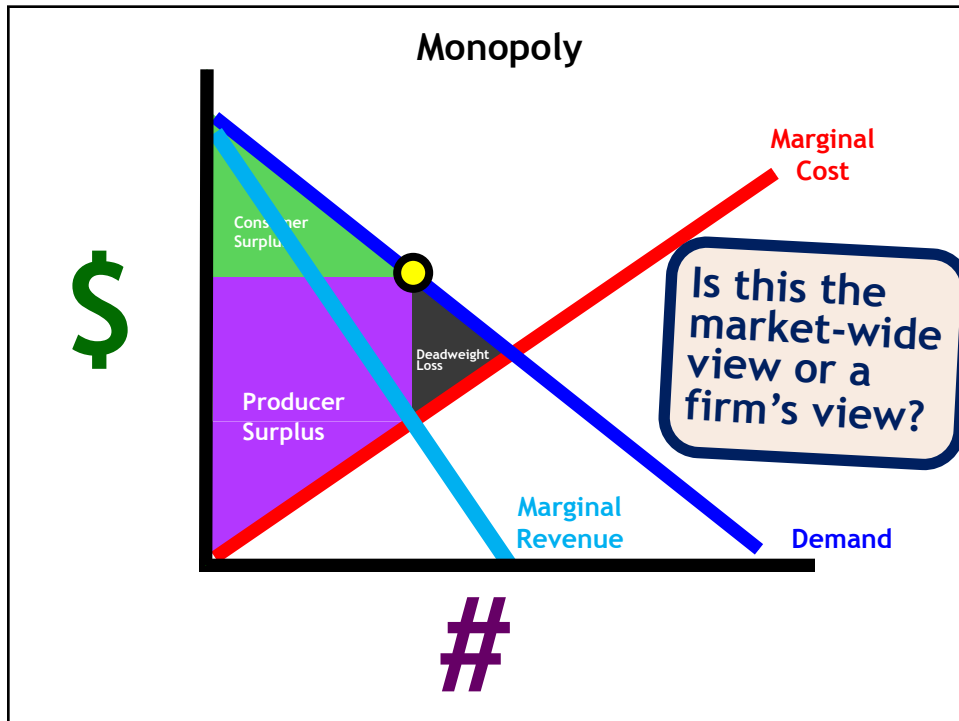


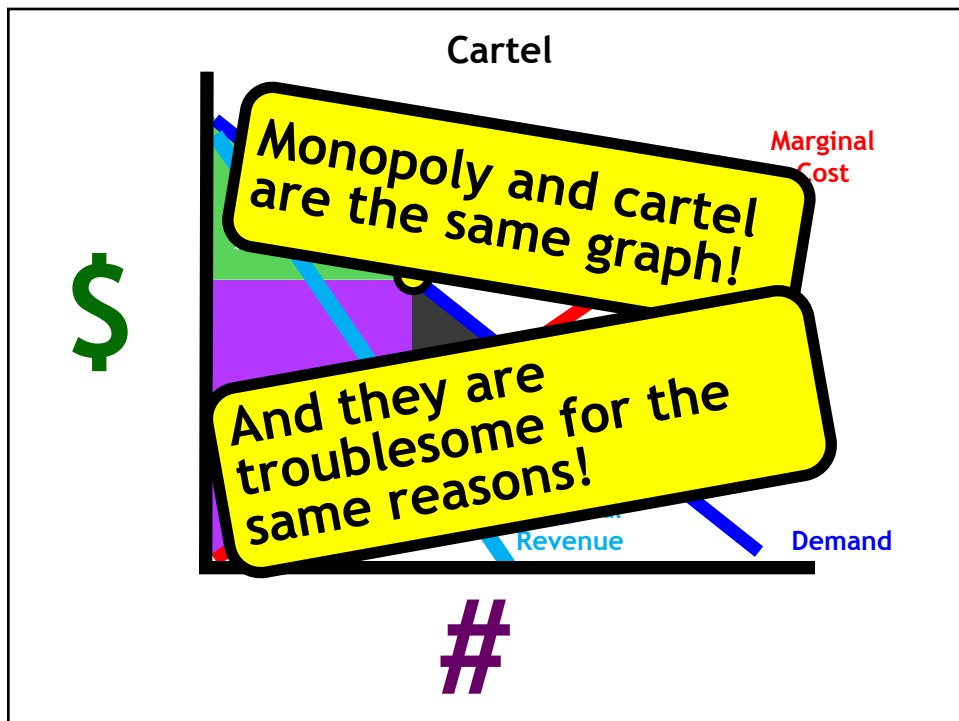
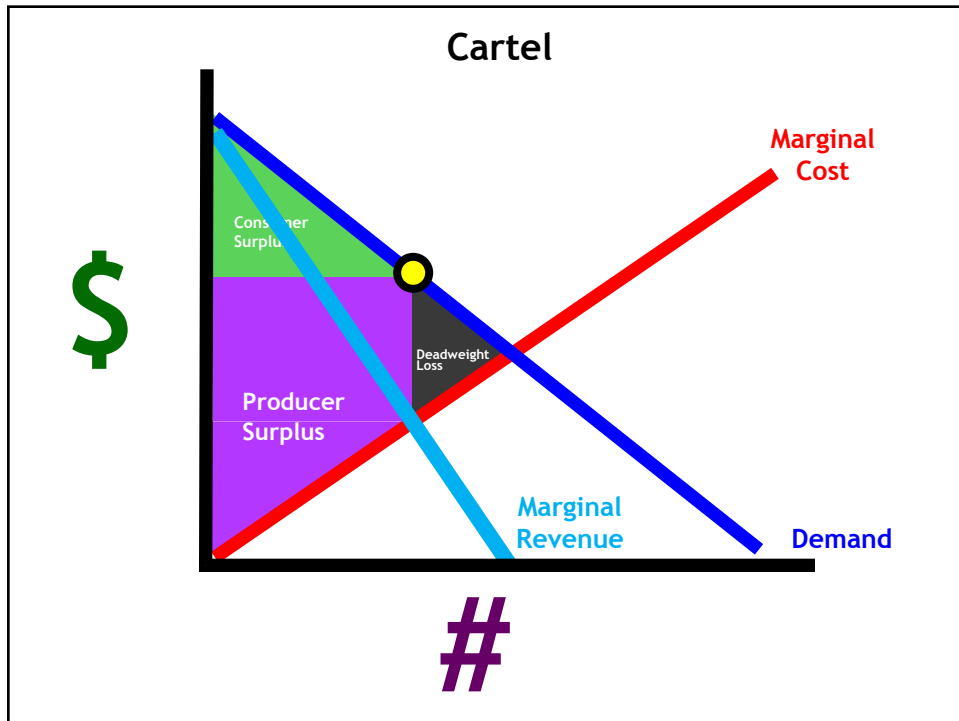


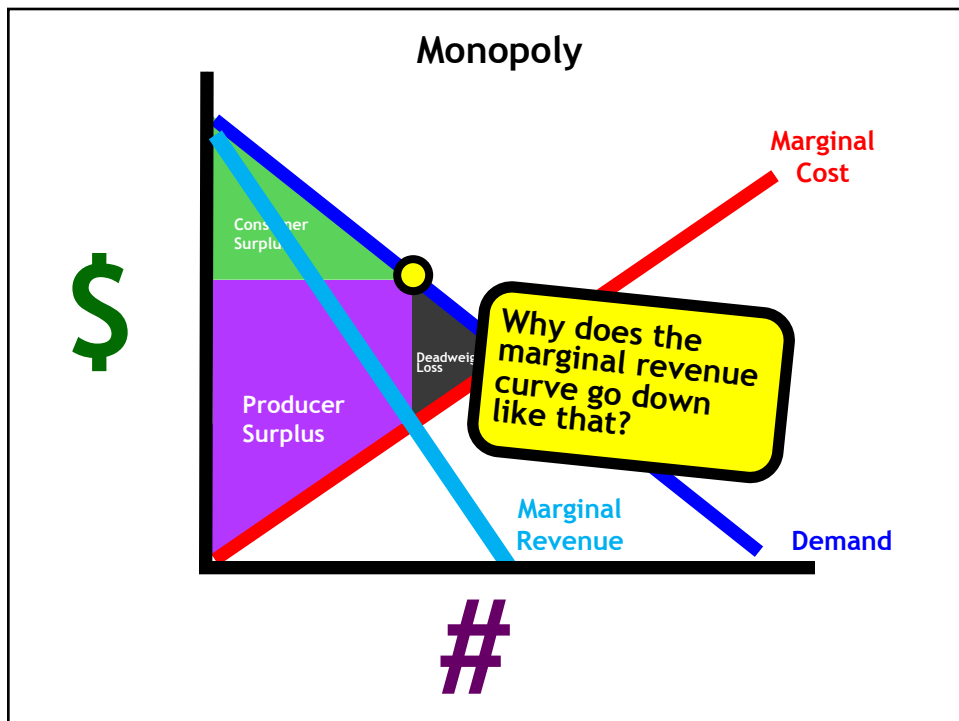
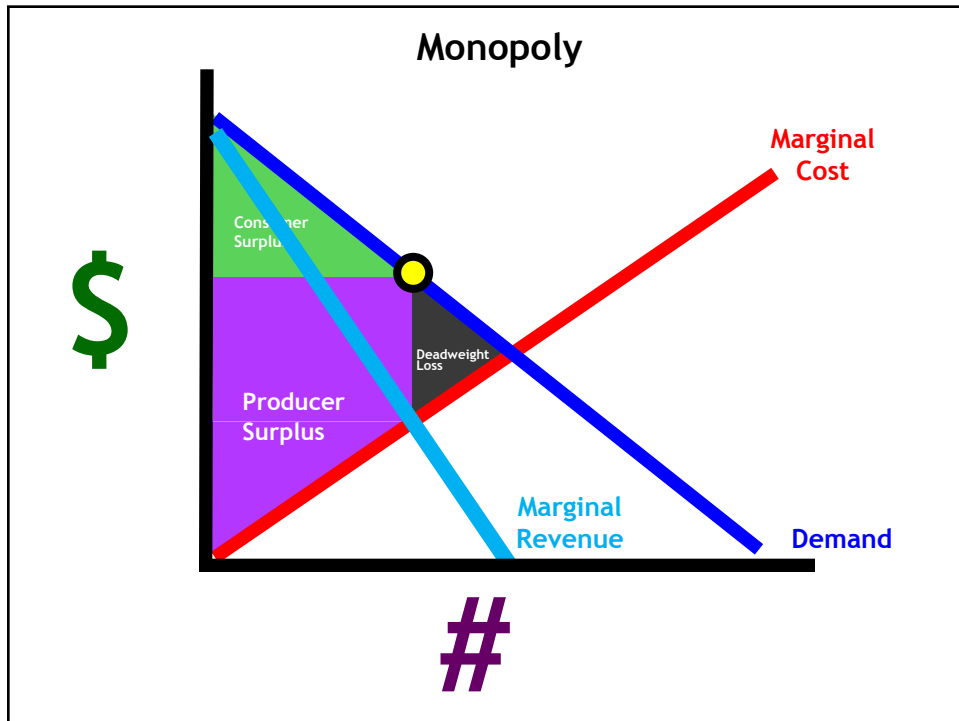


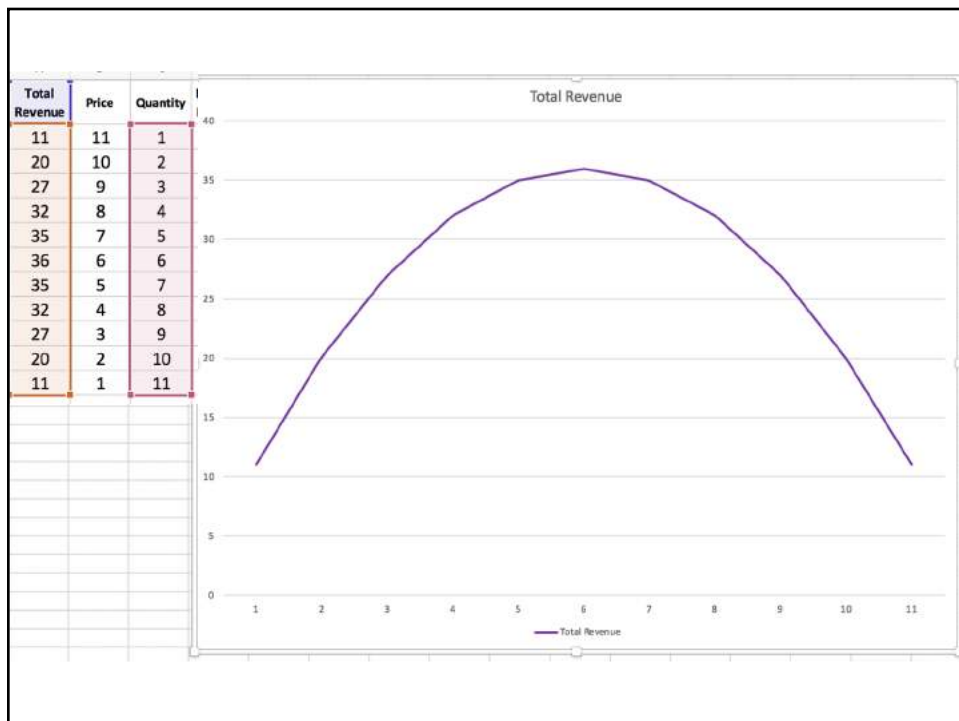
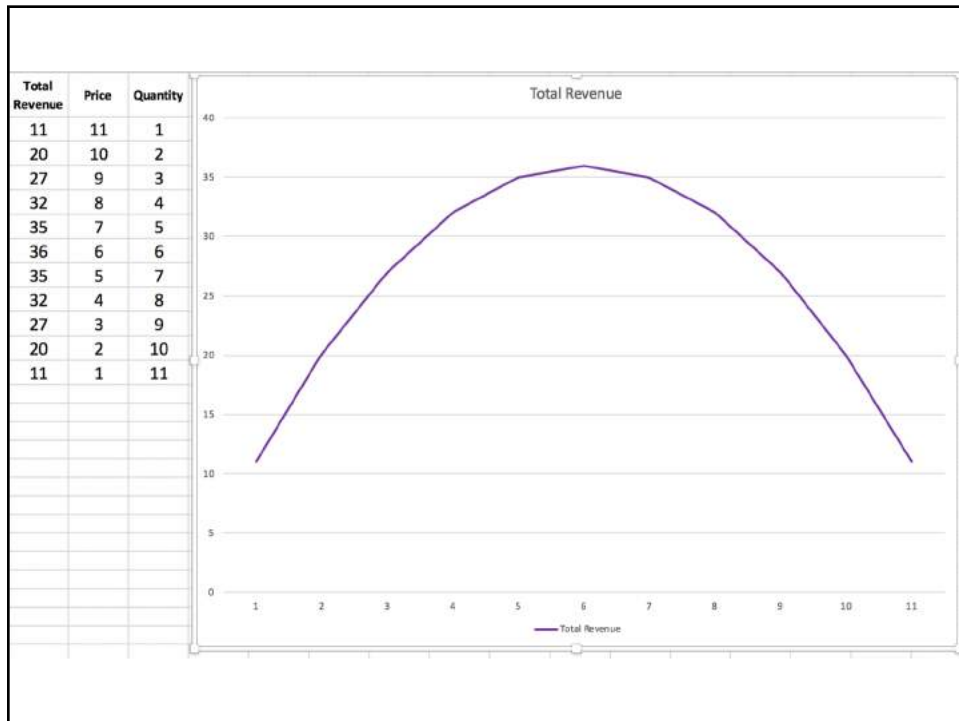


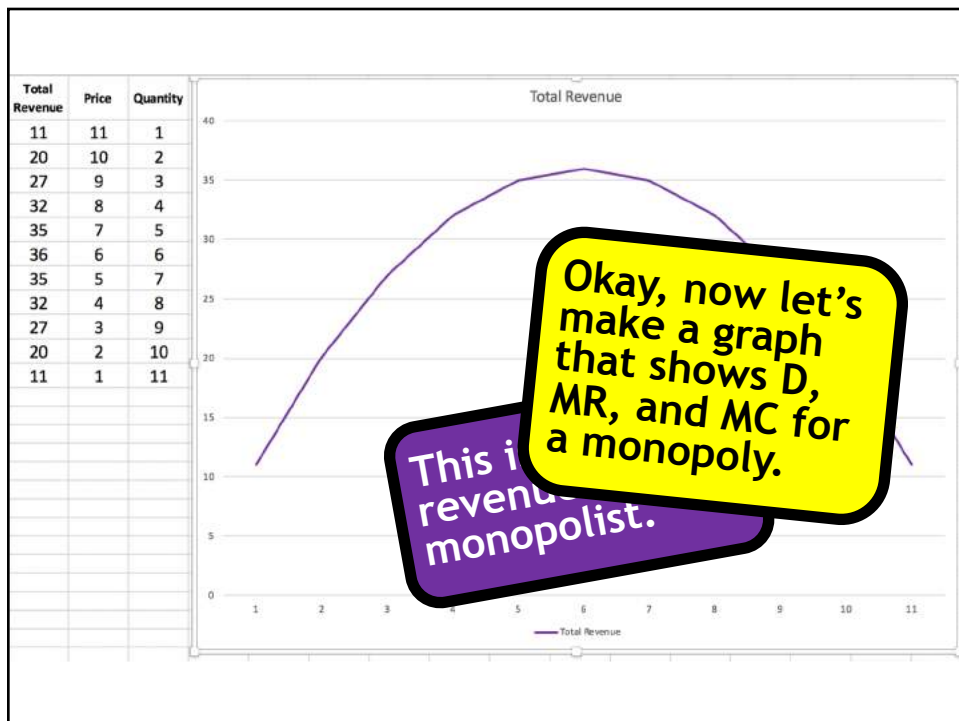
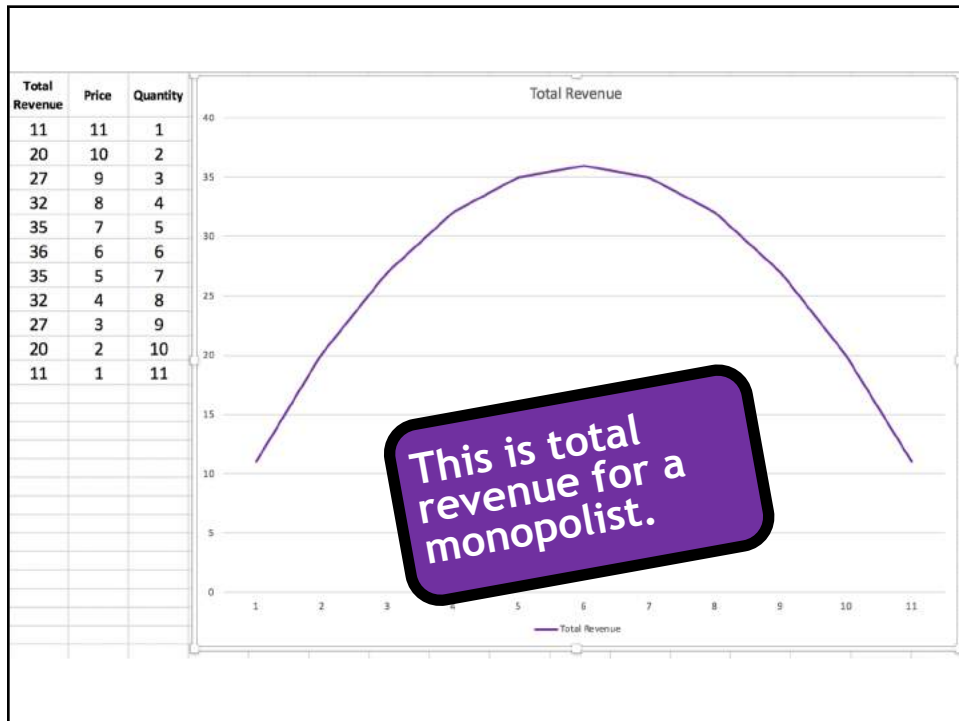


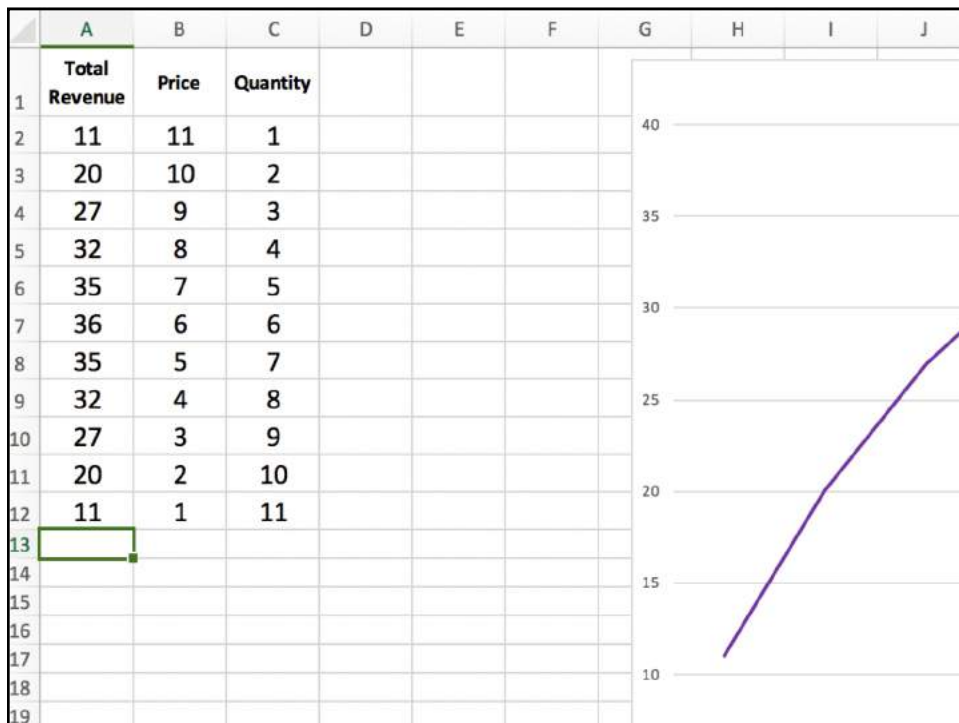
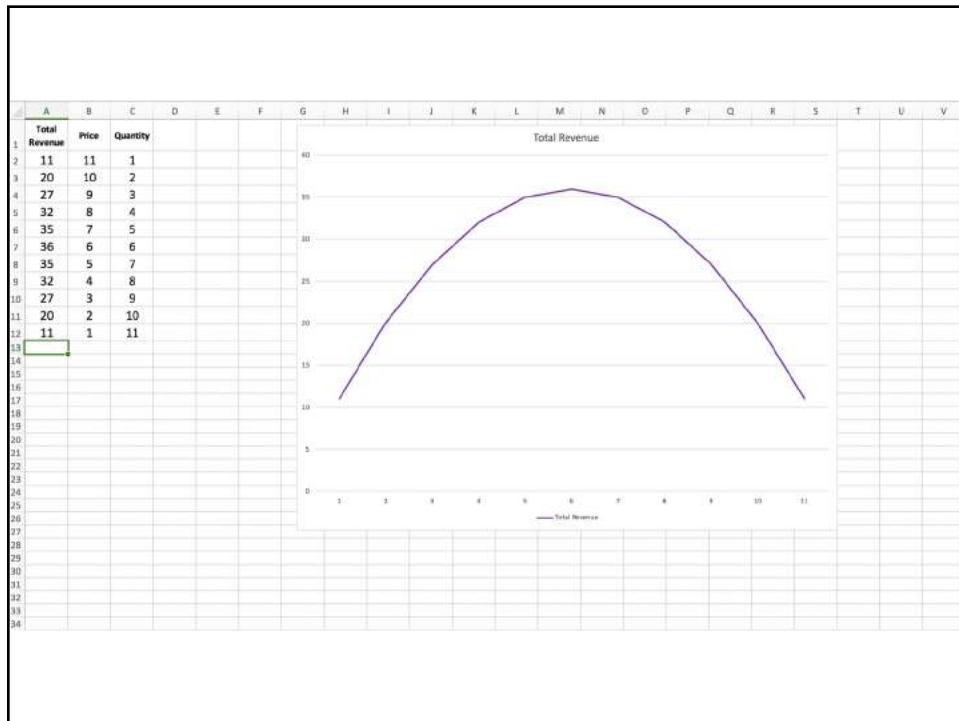


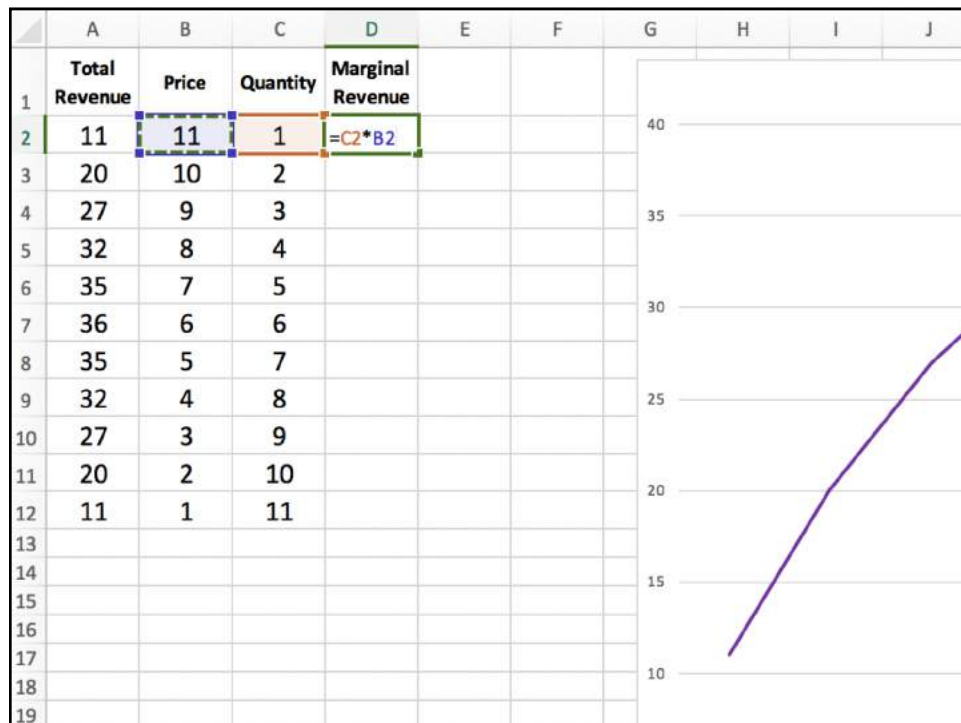
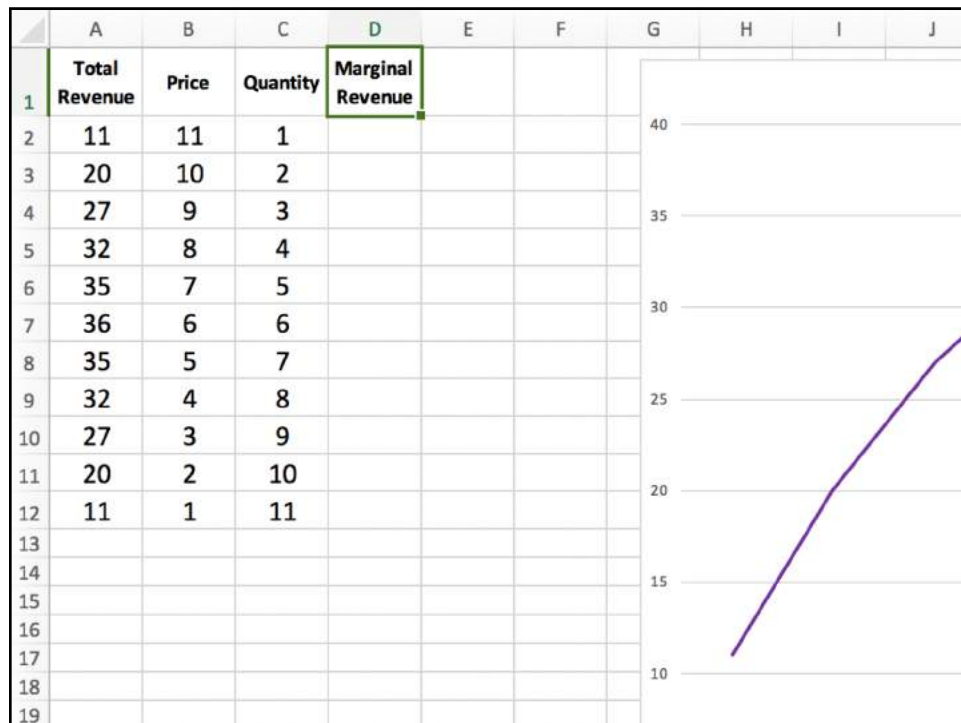


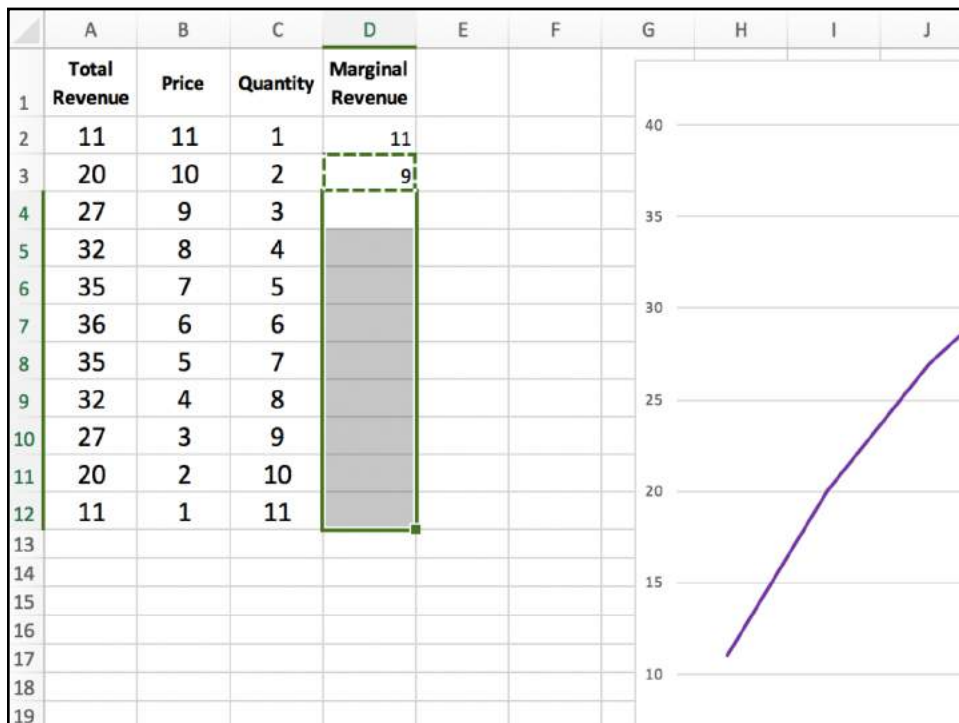
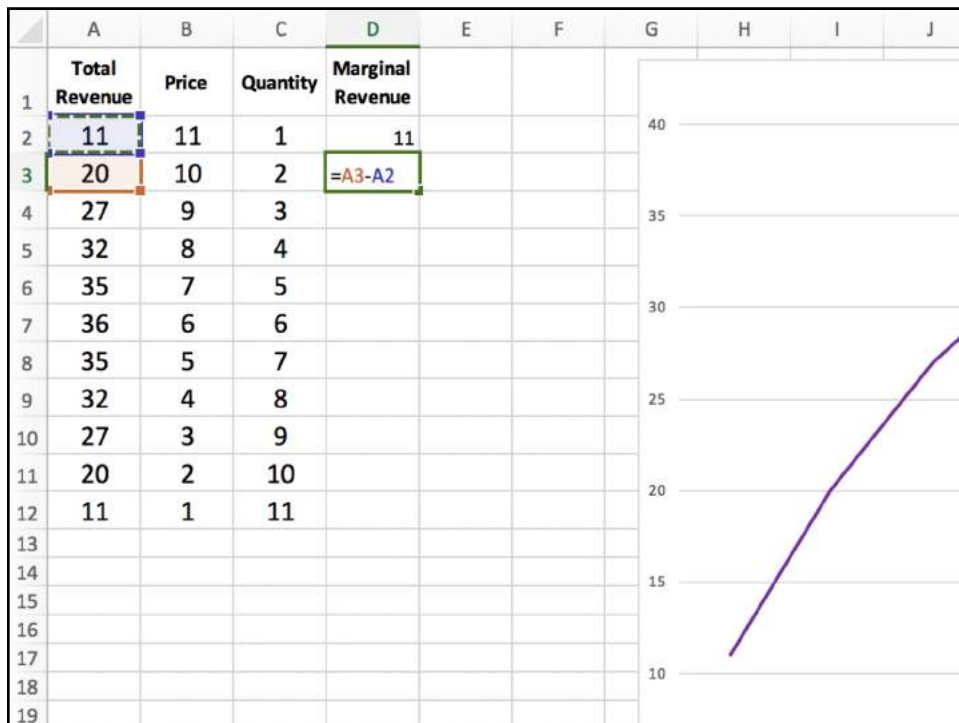


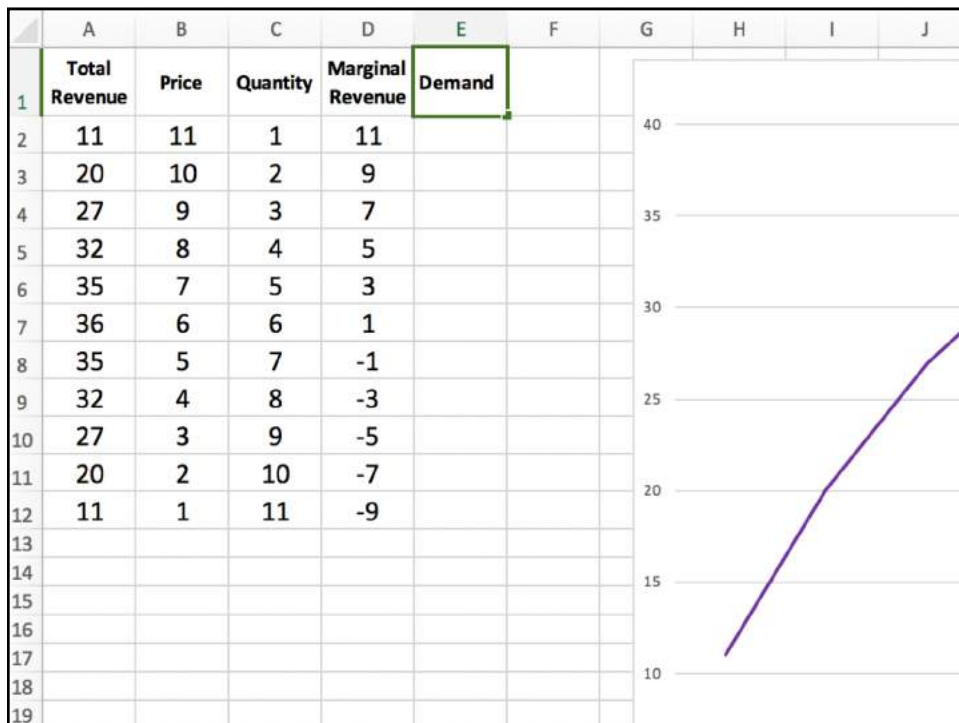
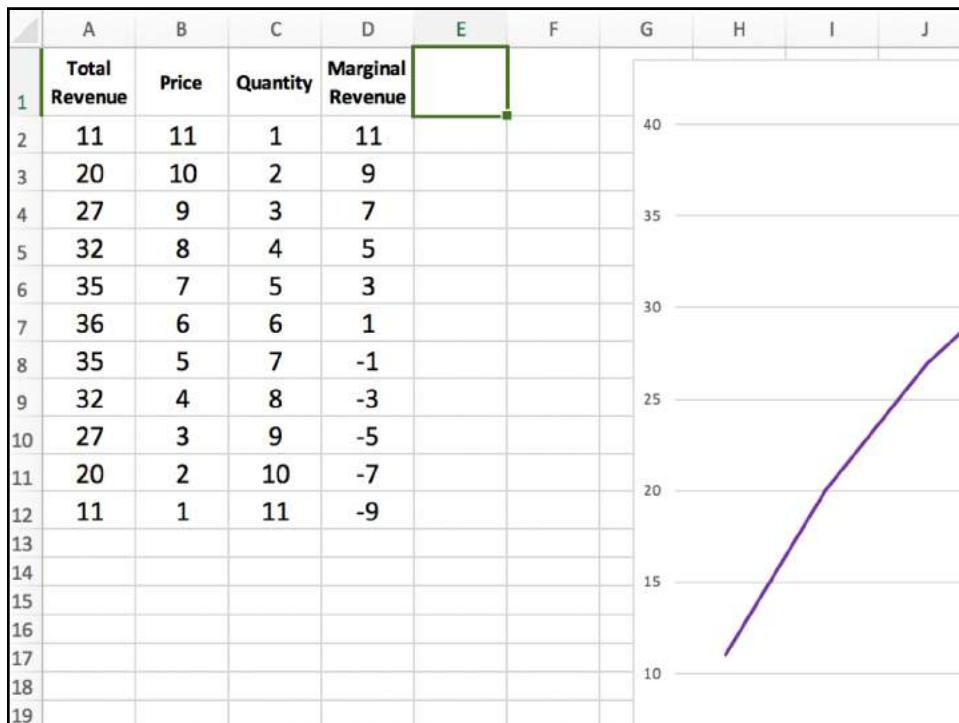


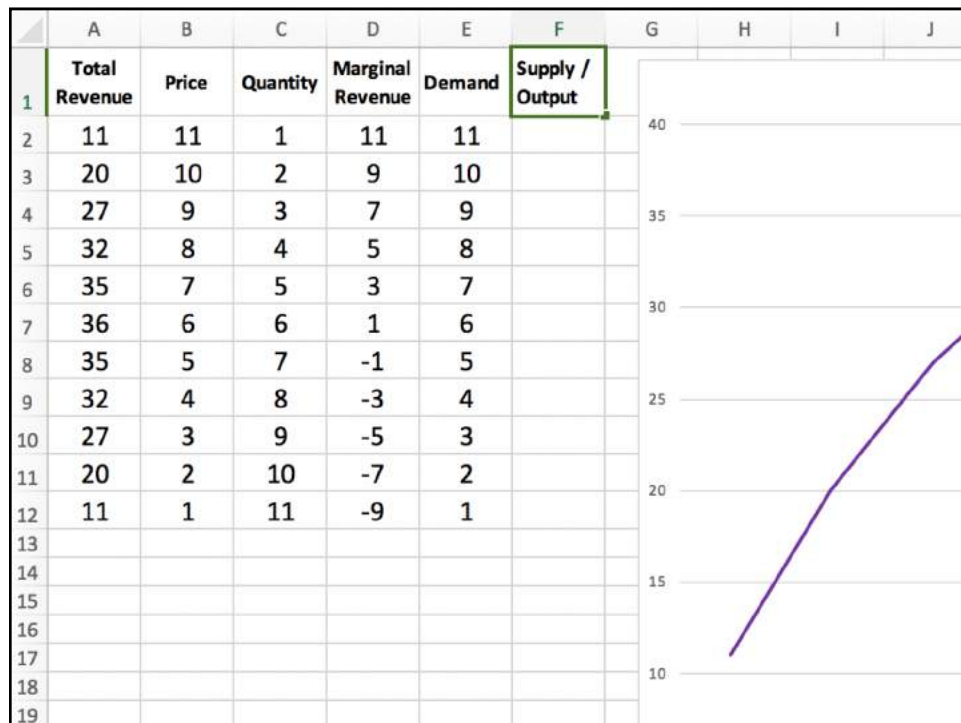
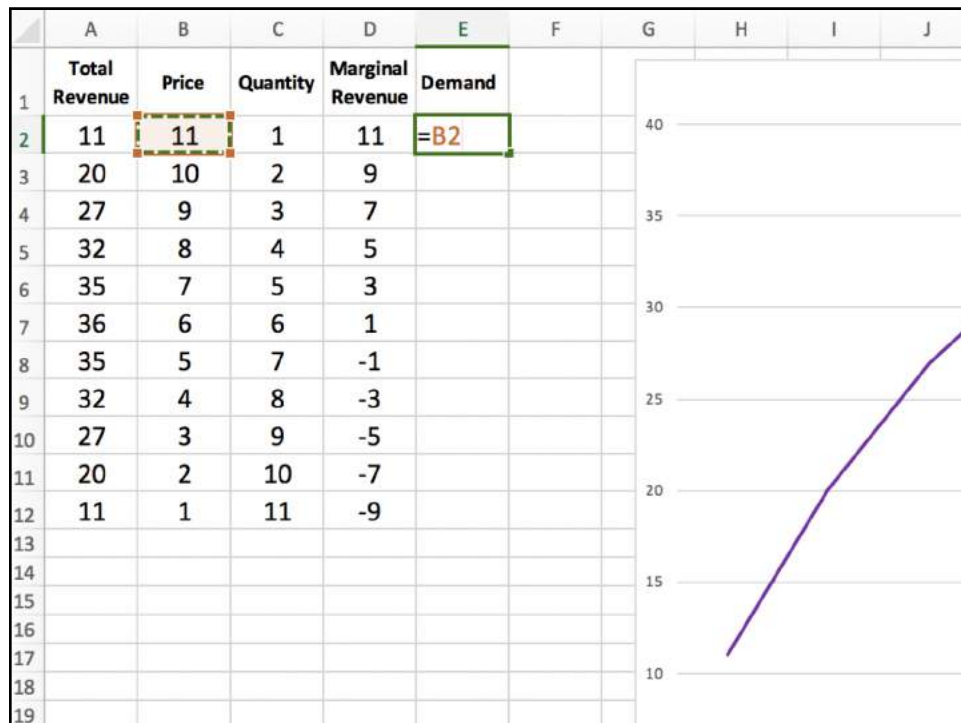


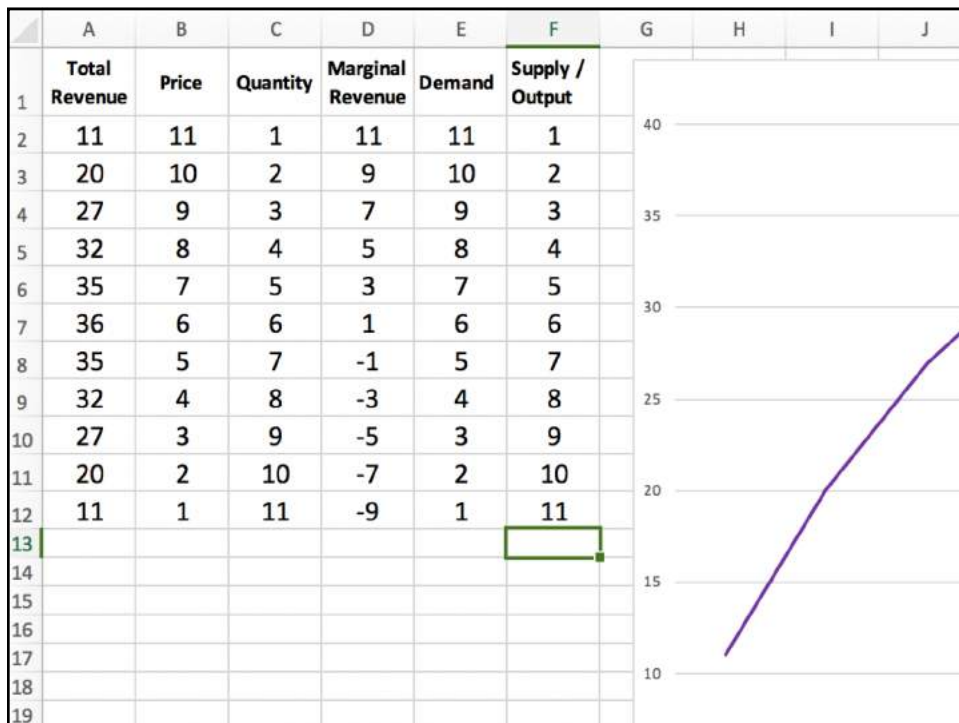
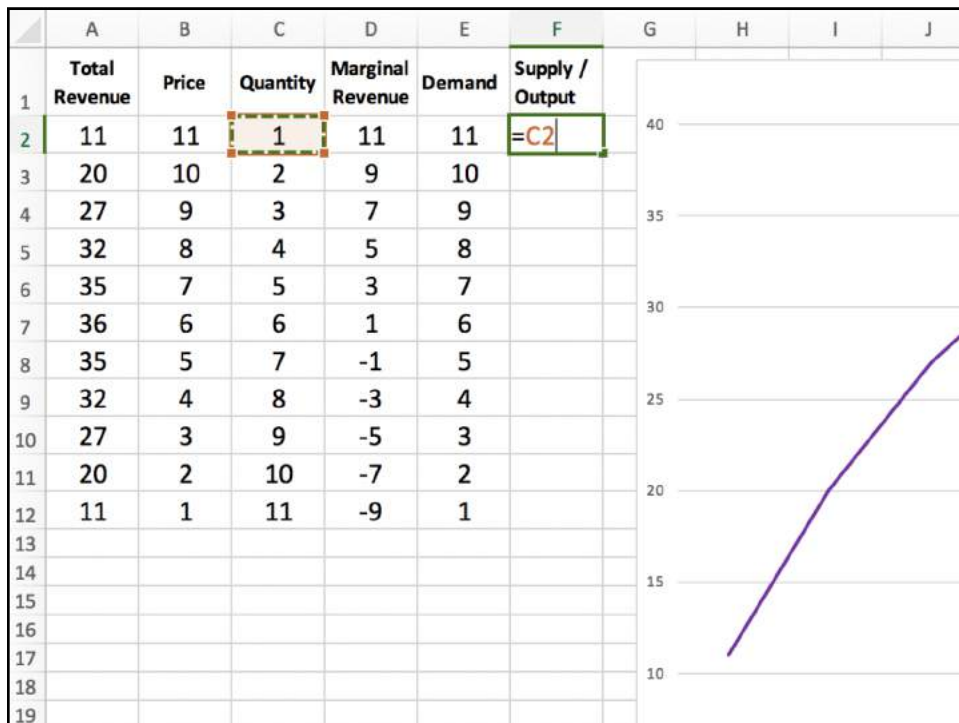


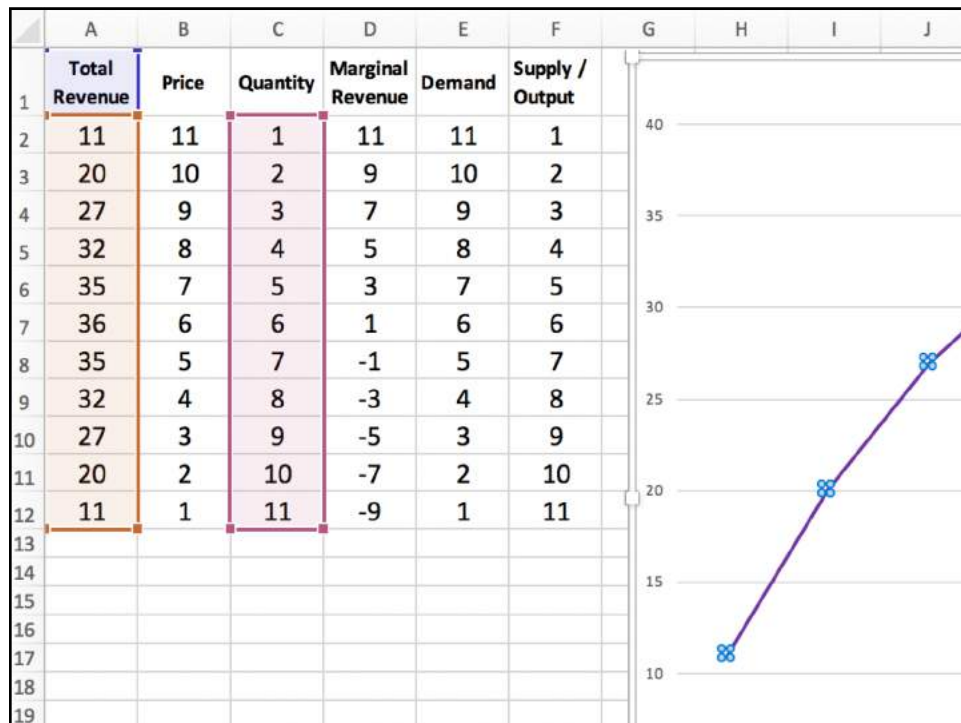




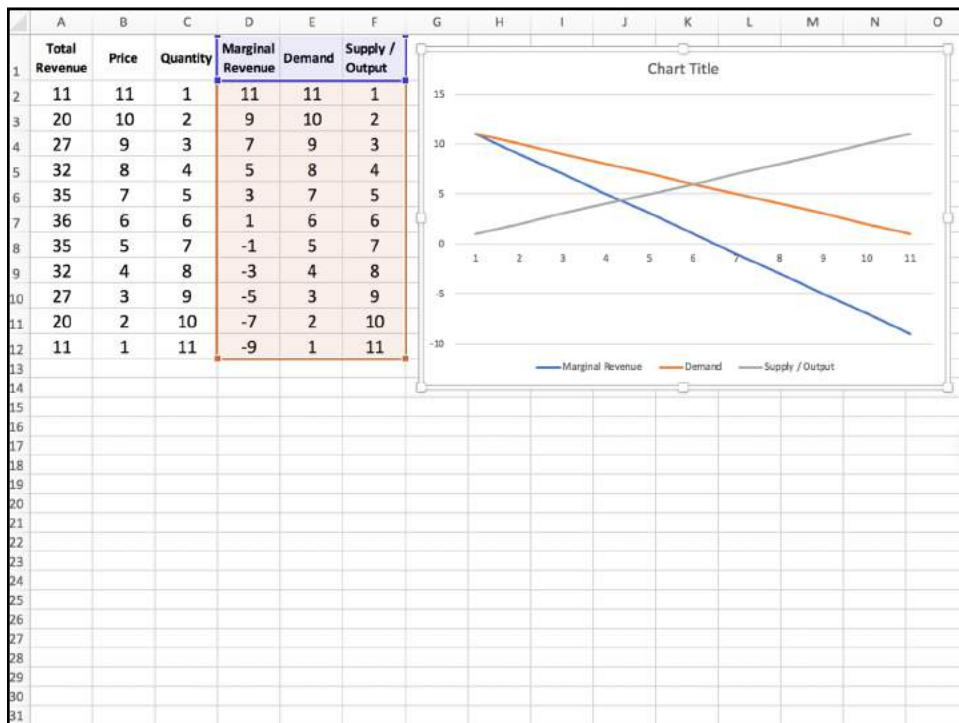
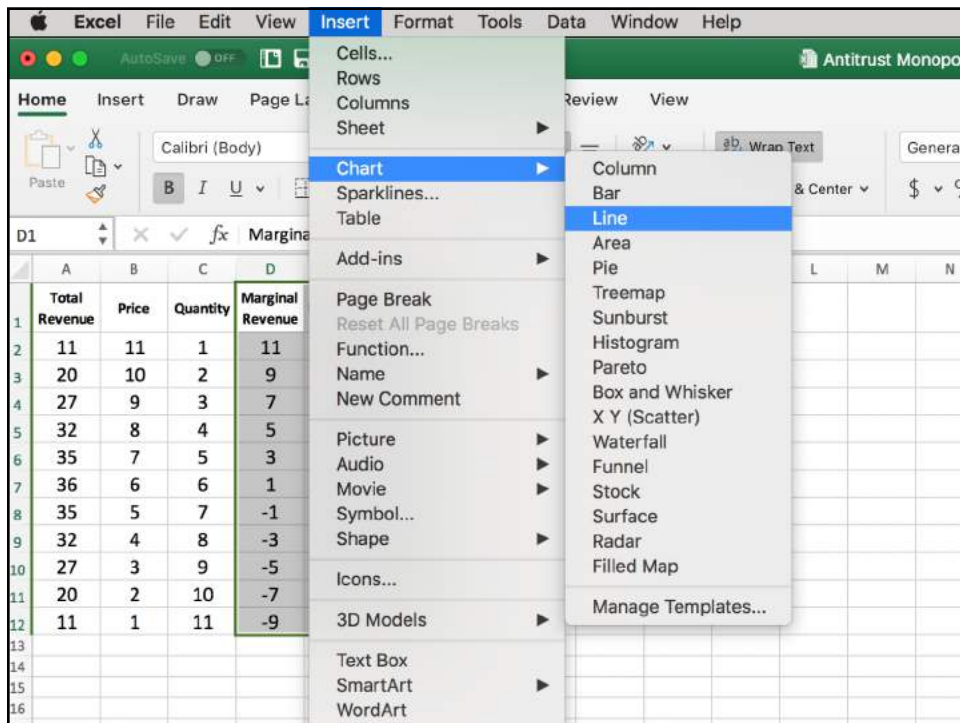


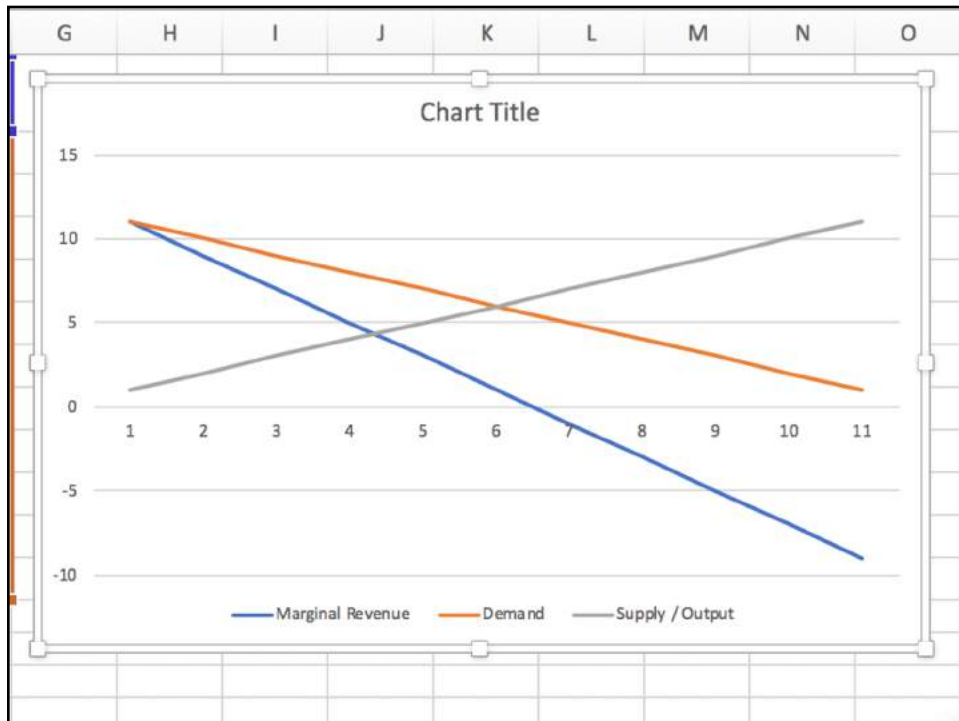
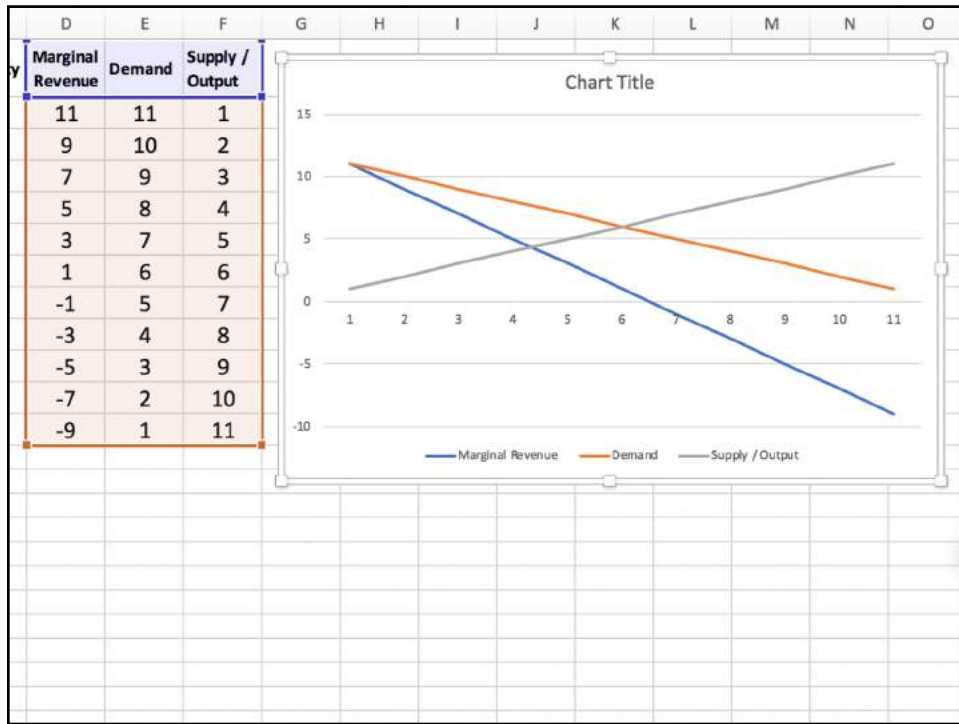


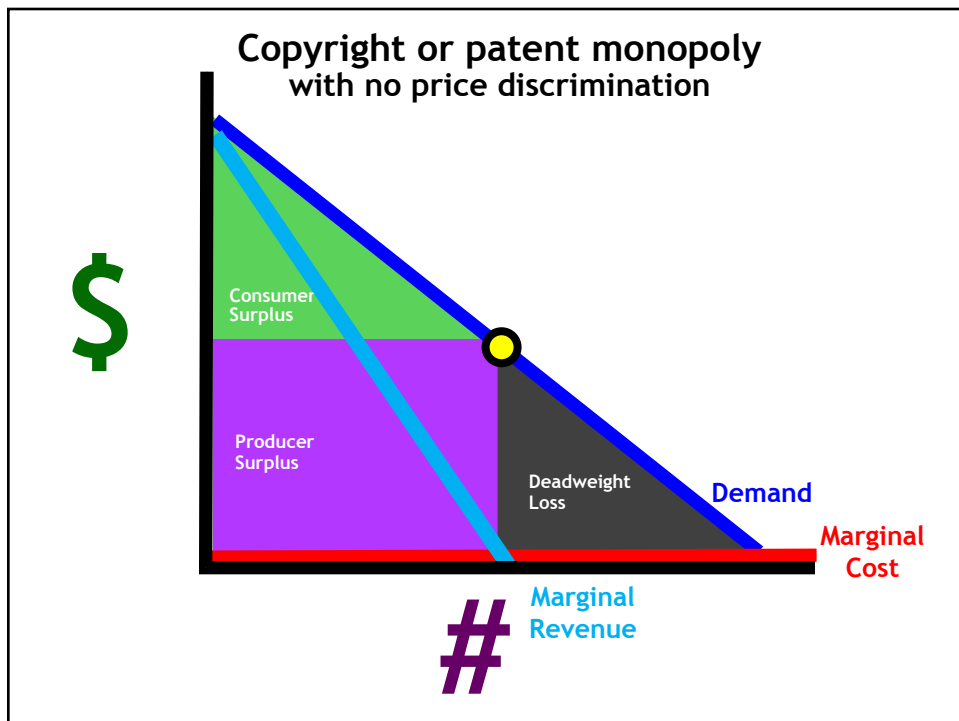
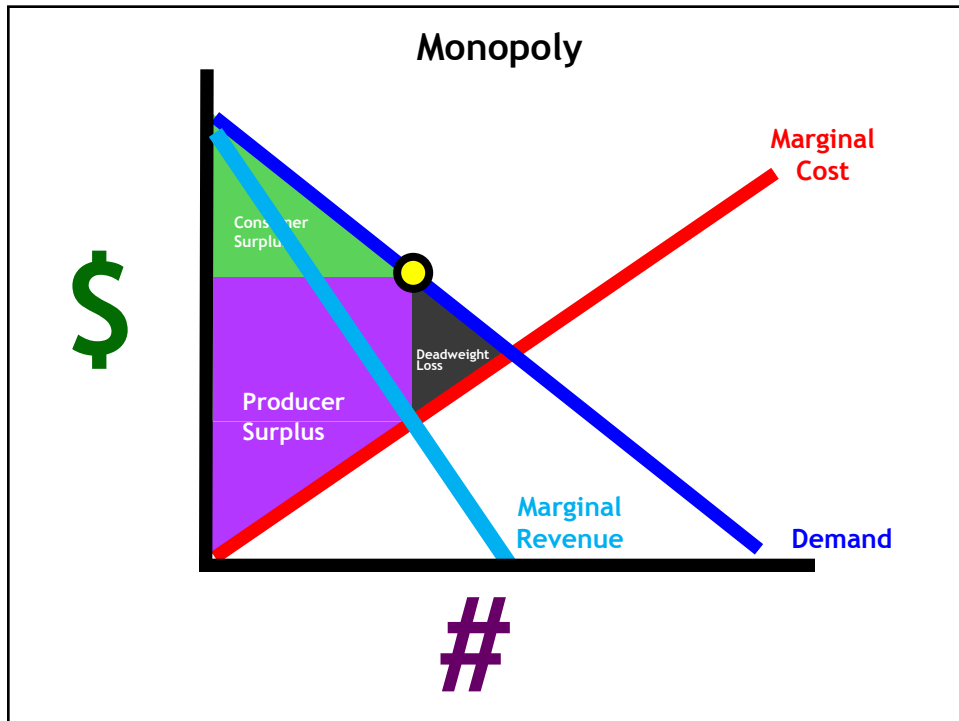


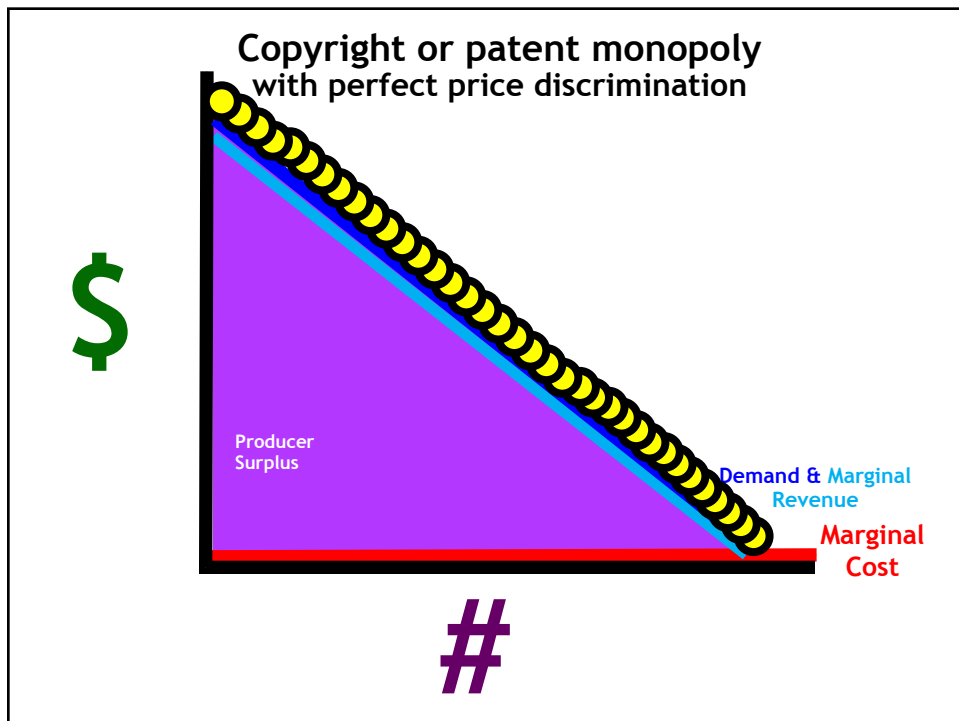


	A	B	C	D	E	F	G	H	I	J
	Total Revenue	Price	Quantity	Marginal Revenue	Demand	Supply / Output				
1										
2	11	11	1	11	11	1				
3	20	10	2	9	10	2				
4	27	9	3	7	9	3				
5	32	8	4	5	8	4				
6	35	7	5	3	7	5				
7	36	6	6	1	6	6				
8	35	5	7	-1	5	7				
9	32	4	8	-3	4	8				
10	27	3	9	-5	3	9				
11	20	2	10	-7	2	10				
12	11	1	11	-9	1	11				
13										
14										
15										
16										
17										
18										
19										









Dominant Market Power

- Short of a monopoly, a dominant firm can have some power over prices.
- This can happen because:
 - Rivals have capacity constraints.
 - Rivals have higher costs.
- This can allow a dominant firm to raise prices to supracompetitive levels.
- The bottom-line is, you don't need a monopoly or a leak-proof cartel to have the power to raise prices and create deadweight loss.

Dominant Market Power and Mergers

- Mergers that don't create a monopoly can still create dominant market power.
 - This can **increase producer surplus**, which is good for the firm and incentivizes the merger.
 - This can **decrease allocative efficiency**, which is bad for society.
- Mergers can allow firms to avoid wasteful, duplicative costs, and thus create beneficial efficiencies.
 - This can **increase producer surplus**, which is good for the firm and incentivizes the merger.
 - This can **increase productive efficiency**, which is good for society.
- Gains in productive efficiency can be offset by losses in allocative efficiency.
- If we are looking out for society, we need to figure out whether a merger raises productive efficiency more than it lowers allocative efficiency.

Allocative and Productive Efficiency

- **Productive efficiency** is that we are being as productive as we can be with regard to one thing we want without any offset reduction in producing something else we want.
- **Allocative efficiency** is that all production and consumption is efficiently allocated.
 - Goods go to their highest and best uses.
 - Capital and labor go to their highest and best uses.

Allocative and Productive Efficiency

“Productive efficiency means that, given the available inputs and technology, it is impossible to produce more of one good without decreasing the quantity that is produced of another good.”

“Allocative efficiency means that the particular combination of goods and services on the production possibility curve that a society produces represents the combination that society most desires.”

- POE 2^d ed. p. 35

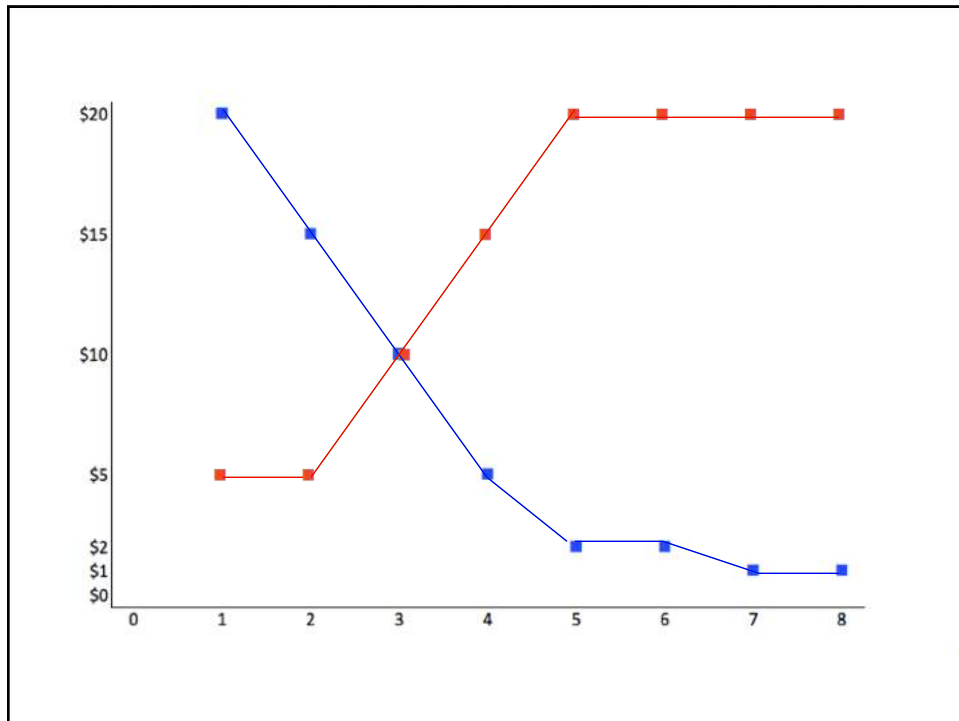
(which was not assigned!)

Example: Windchimes in Wendover on Wednesday

An economy with just eight people and one day:

- Allen, who adores windchimes and would pay \$20 for one.
- Bonnie, who thinks windchimes are okay, and would pay \$15 for one.
- Chuck, finds windchimes uncharming, but he would buy one at \$10 just to have the option of annoying his neighbor, Darla, if Darla's incense burning was annoying him.
- Darla hates windchimes and she would only pay \$5 for one, which she could use for smashing with a hammer to let off steam. If the price were \$2, she'd buy two. For \$1, she'd get up to 5 and smash them all.
- Wendy, loves making wind chimes, and she's good at it. She can churn out two out for \$5 each.
- Xavier likes making things out of metal and clay. It would be worth it for him to make one set of windchimes if it could fetch \$10.
- Yvonne like playing video games and not working. It would only be worth it for her to make one set of windchimes if she got \$15 for it.
- Zendaya is a successful celebrity actor and singer. For it to be worth it to her to make windchimes, she'd have to be paid \$20 each, and even then she'd mostly do it for Instagram value. But she's a fast worker, so she could make four.

What is the efficient number of windchimes for this society to produce?



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- Wendy loves making wind chimes, and she's good at it. She can churn out

If three windchimes are produced, and they all go to Darla, is that allocative inefficiency or productive inefficiency?

- A. allocative inefficiency
- B. productive inefficiency
- C. i.d.k.
- D. I'm lost

could make four.

What is the efficient number of windchimes for this economy?

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What is the efficient number of windchimes for this society to produce?

If Wendy would use a sharper knife that she forgot she has in the garage, she could turn out two more windchimes a day - is that allocative inefficiency or productive inefficiency?

- A. allocative inefficiency**
- B. productive inefficiency**
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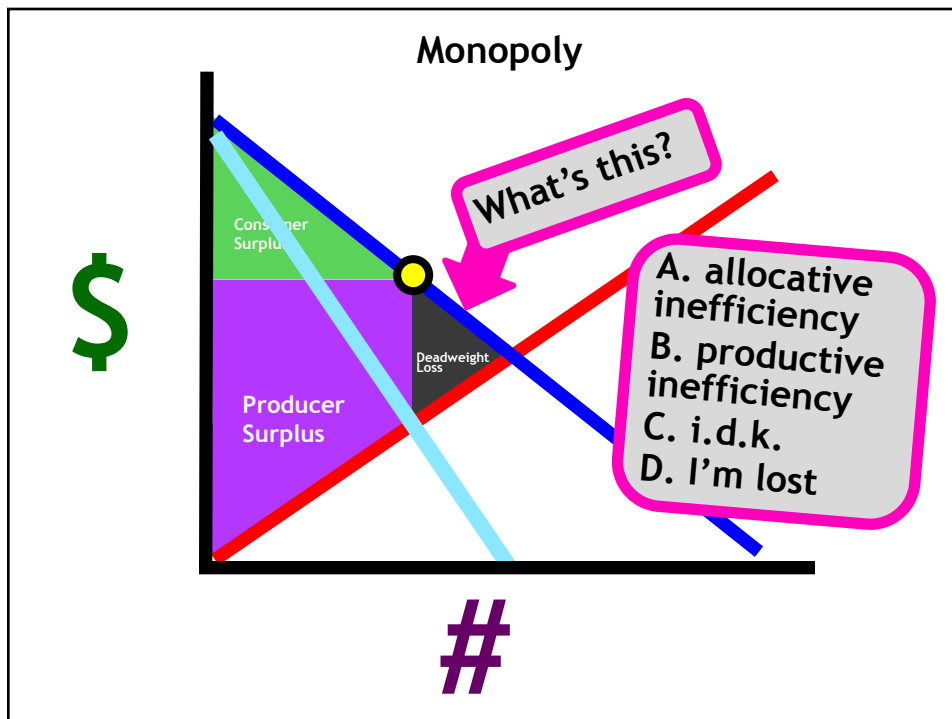
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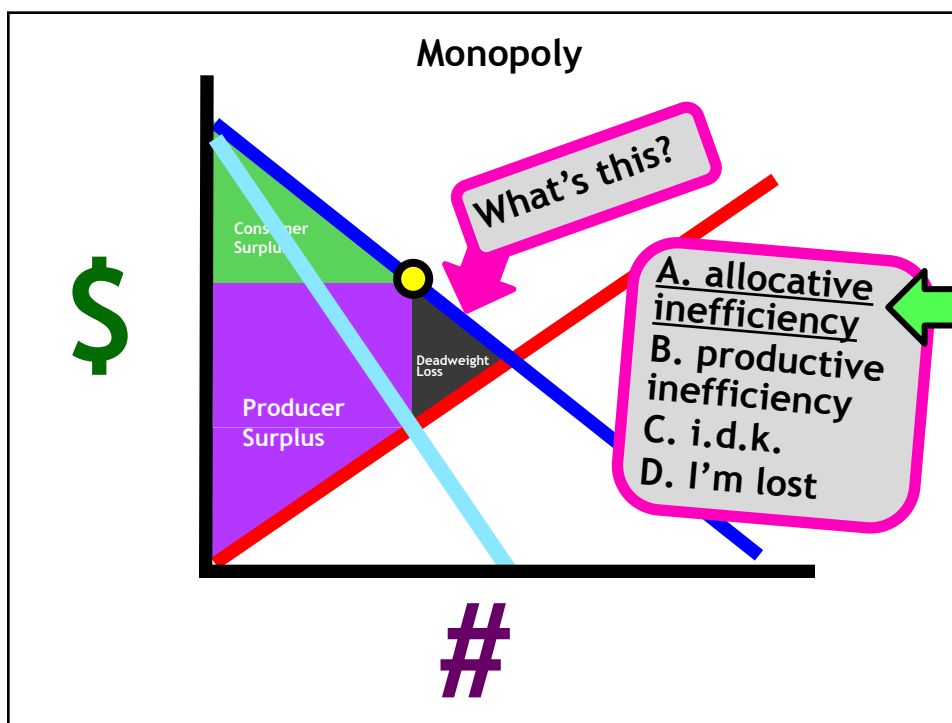
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