Predation

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Intuitive idea

• Out-compete rivals
• But don’t give consumers great deals (in long run)
• Instead, get and exploit a monopoly
Objections in Principle

• Isn’t it good, not bad, if a firm out-competes rivals?
  – How is it possible to do so without giving benefit to consumers?
  – Even then, doesn’t it prove that winner is more efficient?

Objections in Practice

• Price war more expensive for incumbent than for entrant
• Entrant can wait till incumbent is tired
• Assets still around even if entrant bankrupt
• Can customers contract with entrant?
American Airlines at Dallas

- DFW: major hub for American
- High fares, yet high percentage of traffic
  - Southwest at Love Field: Wright Amendment
- Several low-fare carriers entered at DFW
- American cut fares and added flights
- Low-fare carriers exited or retreated
- American raised fares again

DOJ sued American

- “Monopolization”
  - DOJ said it was not just “Predatory pricing”
  - Arguably different legal standard depending on what phrase one uses
  - Judge rejected DOJ claim, so predatory pricing rules would apply
  - How that played out
What are the rules?

- Supreme Court Brooke Group case
- Price below “some measure of cost”
- Realistic prospect of “recoupment”
  - Reality check?
  - Realistic prospect of harm to consumers?

What’s cost got to do with it?

- Answer should help Supreme Court with its confusion about “measure”
- Areeda and Turner (1975): a firm won’t price below cost unless it’s up to something
  - Logic actually says look at whether IR<IC for all (or some?) increments
    - How does this differ?
  - But A&T flat-out wrong
    - Both “false positives” and “false negatives”
Various increments

• A little bit of output…
  – Look at MR versus MC
  – Do we insist a firm mustn’t price even slightly below its profit maximum?
• All its output…
  – Look at “AVC” versus price
• Some other increment/alternative?

Above-cost Predation

• Incumbent has unit cost \( c \)
• Entrant would have unit cost \( e > c \)
• Can incumbent charge monopoly price > \( e \) ?
• Argue that the “predation” problem is low prices as threat to entrant but not usually benefit to consumer
• How does this fit with