Strategic Behavior

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Joseph Farrell

Strategic behavior

• Try to affect market structure, or rivals’ behavior
  – Versus: set optimal price/output/capacity/… given rivals’ behavior, prices, etc.
• Why?
  – Build complementary industry: platform leadership
  – Lower own cost, raise rivals’ costs
  – Limit competition
How Firms Limit Competition

• Mergers—illegal (but gentle enforcement)
• Agreements—highly illegal
  – Teach rivals a lesson?
  – Promise price-matching, etc.
• Get rivals out of your market
  – Predatory pricing, etc.
  – Exclusive dealing
  – Patents
  – Deny compatibility

Manipulating Costs 1 (own)

• Strategic reasons to manipulate own costs
  – Rivals’ reactions—if they know
  – React to softness or to toughness?
    • Recall Stackelberg models
  – Fat cats, puppy dogs, lean and hungry
Manipulating Costs 2 (Others’)

• Normally want to raise rivals’ MC: how?
• Direct sabotage
• Refuse (otherwise beneficial) cooperation
  – Interconnection: the early Bell years
• Agreements with their suppliers
  – Standard Oil
  – Vertical integration: a tradeoff
• Agreements with their prospective customers
  – Exclusive Dealing: (how) can it work?

Exclusive Dealing to Exclude

• The Bork argument and what it proves
• Business-stealing entry
• Free-riding among buyers
  – Buyers who compete downstream
• Above-monopoly pricing
• http://repositories.cdlib.org/iber/cpc/CPC05-053/
A Short Romp Through Exclusion

• Predation
  – Already discussed American Airlines case
  – Policy and policy debates/issues
  – DOJ perspective: “sacrifice standard”

• Exclusive Dealing
• Compatibility
• Patents

An Optimist’s View of Exclusive Dealing

• See CP chapter 12
• Along with great power comes great responsibility
• Incentive for manufacturer to make distribution of its product as efficient/competitive as possible
• Complete laissez-faire not always best
ICE

• Internalization of Complementary Efficiencies
• Why a powerful firm likes competition in complements
  – Complementors as potential competitors? Keep them weak…
• Does this imply laissez-faire for vertical relationships with retailers/complementors?

Cracks in the ICE

• Price discrimination
  – Not always bad in itself, but collateral damage
  – Net neutrality debate
• Complements as Substitutes
  – Microsoft and Netscape
• Regulation
  – The AT&T breakup: DOJ view
  – Incentives for quality/innovation with and without regulation
More Cracks in the ICE

- Do executives think this way? What if not?
- Bell entry into long-distance, with access charges above MC
  - MCI and AT&T lobbying
- Where does this leave us?
- Evolution of telecom and antitrust policy
- http://jolt.law.harvard.edu/articles/v17.php