

Strategic Behavior

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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>