

## An Example

## Some other Examples

- A decision by dentists not to provide information to insurance companies to check up on reasonable care was held illegal.

## Some other Examples

- A decision by dentists not to provide information to insurance companies to check up on reasonable care was held illegal.
- A decision by the PGA to restrict eligibility for PGA tournaments. Upheld because it reduced the number of players of inferior ability.

## Some other Examples

- A decision by dentists not to provide information to insurance companies to check up on reasonable care was held illegal.
- A decision by the PGA to restrict eligibility for PGA tournaments. Upheld because it reduced the number of players of inferior ability.
- A decision by cement manufacturers to boycott purchasers who placed bad orders was upheld.

## A Hypothetical Trade Association

- Suppose that the Used Car Dealers of Northeast Ohio decide to get together and form a trade association.
- The objective of the trade association is to improve the image of used car dealers and thus serve the public better. UCDNEO agrees:

## What they Will do

- A code of ethics (salesmen will wear ties, greet the customers professionally, not spit on showroom floors, represent the cars honestly, etc.)
- They will adopt a logo representing UCDNEO (Clean Cars, Honestly Sold) and display it proudly. They will advertise the symbol to the public, and hire an ombudsman to answer an 800 number and service consumer complaints.

## What they Will do

- They will report all sales to a central office so that the office can do two things: economize on paper work on filing for titles and tags, and by checking prices, make sure that no one got really gouged.
- To keep the group manageable, they will keep the number of members down to a reasonable level.

## What they Will do

- They will agree not to purchase cars at any auction house that sells to dealers not members of UCDNEO. They will report records of all their purchases to the central office.
- Yearly, they will gather in the Caymans for a weeklong tax-deductible convention.
- Finally, they will standardize their sales and warranty forms.

## What Passes Muster

- They adopt a code of ethics (salesmen will wear ties, greet the customers professionally, not spit on showroom floors, represent the cars honestly, etc.)

## What Passes Muster

- They adopt a code of ethics (salesmen will wear ties, greet the customers professionally, not spit on showroom floors, represent the cars honestly, etc.)
  - (Depends. Most of this is lawful, but some parts of codes of ethics seem to be justified only as cartel-like behavior. E.g., bans on advertising have hit the dust.

## What Passes Muster

- They will adopt a logo representing UCDNEO (Clean Cars, Honestly Sold) and display it proudly. They will advertise the symbol to the public, and hire an ombudsman to answer an 800 number and service consumer complaints.

## What Passes Muster

- They will adopt a logo representing UCDNEO (Clean Cars, Honestly Sold) and display it proudly. They will advertise the symbol to the public, and hire an ombudsman to answer an 800 number and service consumer complaints.
  - What is the ombudsman doing? Sounds ok, but lets look at the central office.

## What Passes Muster

- They will report all sales to a central office so that the office can do two things: economize on paper work on filing for titles and tags, and by checking prices, make sure that no one got really gouged.

## What Passes Muster

- They will report all sales to a central office so that the office can do two things: economize on paper work on filing for titles and tags, and by checking prices, make sure that no one got really gouged.
  - Centralized processing is ok, but checking on prices is a no-no

## What Passes Muster

- To keep the group manageable, they will keep the number of members down to a reasonable level.

## What Passes Muster

- To keep the group manageable, they will keep the number of members down to a reasonable level.
  - If it looks like a duck, walks like a duck and quacks like a duck, it is a duck. This is a cartel.

## What Passes Muster

- They will agree not to purchase cars at any auction house that sells to dealers not members of UCDNEO. They will report records of all their purchases to the central office.

## What Passes Muster

- They will agree not to purchase cars at any auction house that sells to dealers not members of UCDNEO. They will report records of all their purchases to the central office.
  - A cartel

## What Passes Muster

- Yearly, they will gather in the Caymans for a weeklong tax-deductible convention.

## What Passes Muster

- Yearly, they will gather in the Caymans for a weeklong tax-deductible convention.
  - A tax scam, but not a cartel problem.

## What Passes Muster

- Yearly, they will gather in the Caymans for a weeklong tax-deductible convention.
  - A tax scam, but not a cartel problem.
  - But, as Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices".

## What Passes Muster

- Yearly, they will gather in the Caymans for a weeklong tax-deductible convention.
  - A tax scam, but not a cartel problem.
  - But **The group will *not* spend all its time in the Caymans on beaches and booze.** same triment in a

## What Passes Muster

- Finally, they will standardize their sales and warranty forms.

## What Passes Muster

- Finally, they will standardize their sales and warranty forms.
  - Makes for economic efficiency.

End

©2004 Charles  
W. Upton