

More on the Share Test

What is a Substitute

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 - Other Carbonated Beverages?
 - Tea?
 - Coffee?
 - Milk?
 - Water?
- Substitutes for Aluminum

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- Issue in the Alcoa case, heard by Judge Learned Hand, one of the most distinguished American Jurists of all time.**

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- In 1956, Dupont sold over 75 percent of the cellophane in the United States.
 - Dupont argued that there were other wrappings such as aluminum foil, wax paper, saran wrap and polyethylene.
 - With these included, Dupont had less than 20% of the market.

The Cellophane Fallacy

- The court suggested a test of whether "the product market is composed of products that have reasonable interchangeability for the purposes for which they are produced, - price use and qualities considered. Other products that will reasonably do the job just as well, deserve to be included.

The Cellophane Fallacy

- The court went beyond this to look at the cross elasticity of demand. Thus, "If a slight decrease in the price of cellophane causes a considerable number of customers of other flexible wrappings to switch to cellophane, it would be an indication that a high cross-elasticity of demand exists between them and that the products compete in the same market."

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- **The data could just indicate that Dupont had priced its product aggressively to exploit its monopoly position.**

Grinnell

- An anti-trust suit against Grinnell, a manufacturer of integrated alarms against fire, theft and burglary when the other way
- The court threw out night watchmen and competitors whose systems were not as good as that of Grinnell, ignoring the evidence of significant cross price elasticity of demand.

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- There are 1000 widget making machines in the world today, all made by Acme Widgets when it had a patent on the making of Widget Machines. This year, no patent
 - Acme sells 40 new machines and its competitors sell 60.
 - Is Acme's share $40/100$ or $1040/1100$?

Just what is the product

- 40%
 - The other number is not a measure of its monopoly power, but merely the after affects of its patent.

Peripherals

- Acme Widgets makes a large number of widget machines and an attachment that automatically paints the widget.

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- There are competitors for widget makers, *and* for plug-compatible painting machines.

Peripherals

Type of Machine	Units
Acme Widget Painting Machines	100
Plug Compatible Painting Machines	50
Other Widget Painting Machines	150

Peripherals

So what is Acme's Market Share? 2/3 or 1/3

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Acme Widget Painting Machines	100
Plug Compatible Painting Machines	50
Other Widget Painting Machines	150

Geographic Markets

- In some cases, market is national
 - Dell
 - Gateway

Geographic Markets

- In some cases, market is national
 - Dell
 - Gateway
- In other cases, market is local
 - Grocery Stores
 - Service Stations

End

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