

Predatory Pricing



Other Issues

- Predatory Pricing
- Refusal to Deal
- Tie-in
- Mergers
- Cartels

Predatory Pricing

- Acme Widgets can produce widgets at a marginal cost of \$10.
- It currently sells them at \$20 (it has a monopoly).
- If someone begins to compete with Acme, it will lower the price to \$5 until that competitor leaves the business.

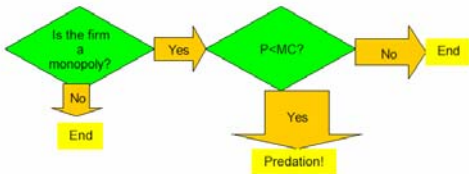
Predatory Pricing

- Acme Widgets can produce widgets at a marginal cost of \$10.
 - It currently sells them at \$20 (it has a monopoly).
 - If someone begins to compete with Acme, it will lower the price to \$5 until that competitor leaves the business.
- This sounds like predatory pricing and not socially efficient.

Predatory Pricing

- An airline charges a high price for a route where it has a monopoly.
- A discount airline enters the market.
- Can the original airline lower its price? Or is that predatory pricing?

The Areeda-Turner Test



The Areeda-Turner Test

An example: Microsoft charged firms one price if they install Windows on only some of their computers. It charged a lower price if they put Windows on all computers.

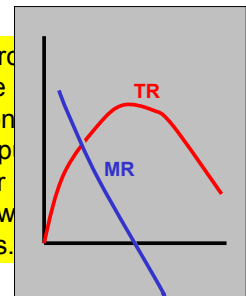
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Units	Price Per Unit	TR	MR
8	50	400	
9	40	360	-40
10	30	300	-60

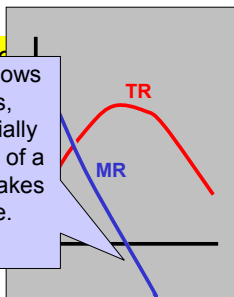
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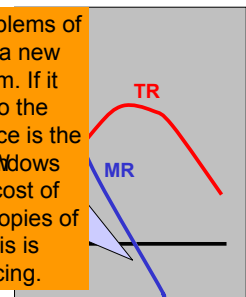
The Areeda-Turner Test

When a firm put Windows on all its computers, Microsoft was essentially operating in the range of a negative MR. That makes no economic sense.



The Areeda-Turner Test

Consider the problems of Anti-Windows, a new software system. If it wants to sell to the customer, the price is the cost of Anti-Windows plus the extra cost of installing fewer copies of Windows. This is predatory pricing.



End

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