Predatory Pricing

Predatory Pricing

Predatory Pricing

Predatory Pricing

Other Issues

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

Predatory Pricing

Predatory Pricing

Predatory Pricing

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

Predatory Pricing

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?
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.

<table>
<thead>
<tr>
<th>Units</th>
<th>Price Per Unit</th>
<th>TR</th>
<th>MR</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>50</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>40</td>
<td>360</td>
<td>-40</td>
</tr>
<tr>
<td>10</td>
<td>30</td>
<td>300</td>
<td>-60</td>
</tr>
</tbody>
</table>

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.

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

©2004 Charles W. Upton