Tie in Deals

Other Issues
- Predatory Pricing
- Refusal to Deal
- **Tie-in**
- Mergers
- Cartels

Tying Deals
- The purchase agreement with McDonalds is a "tying arrangement"
  - There is economic benefit in protecting the McDonald’s image, and one way of doing that is to regulate the products its franchisees use.
IBM Punch Cards

• In the Dark Ages (1950’s), you got data into a computer via punch cards.
• IBM, with a near-monopoly on computers, required IBM-provided punch cards, sold at a high price.
  – It claimed it did so to protect its computers.
  – It was also a means of price discrimination.
  – IBM Lost.
• Customers with limited computer use made limited use of punch cards.
• Heavy computer users used more punch cards and paid more for the same computer
• This is Price Discrimination 101.

Photocopiers

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• Why isn’t this as illegal as punch card pricing?
• No monopoly in the business.

Xerox Machines

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• The difference is that wear and tear on a photocopier does depend on how often it is used.

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- This initially was held to be an unreasonable tie-in arrangement.

Later, the courts ruled that the practice was not illegal.

Anesthesiologists

- A large acute care hospital required patients wanting operations to use the hospital's anesthesiologists.

Anesthesiologists

- An excluded anesthesiologist complained that this tie-in practice excluded him from obtaining patients.

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Anesthesiologists

- Five judges upheld a per se test, but said that there was not market power.
- Four judges ruled that the test was wrong, that there was legitimate economic reason (quality control) to tie in.

End