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Law and Economics-Charles W. Upton

What is a Substitute

- · Substitutes for Coca-Cola
- · Substitutes for Aluminum
- Pepsi?
- Other Carbonated Beverages?
- Tea?
- Coffee?
- Milk?
- Water?

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What is a Substitute

- Substitutes for Coca Substitutes for Co Issue in the Alcoa minum
 - case, heard by Judge
 - Learned Hand, one of
 - the most distinguished
 - American Jurists of all
 - time.



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What is a Substitute

- Substitutes for Cc Substitutes for Aluminum Cola
 - Pepsi?
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What is a Substitute

Alcoa to make finished

- Substitutes for Cc Substitutes for Aluminum Cola Aluminum used internally by
 - Pepsi?
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products

What is a Substitute

by Alcoa to make finished

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products

What is a Substitute

- Cola
 - Pepsi?
 - Other Carbonated Beverages?
 - Tea?
 - Coffee?
 - Milk?
 - Water?

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- Substitutes for Cc Substitutes for Aluminum
 - Aluminum used internally by Alcoa to make finished products
 - Aluminum from recycling

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What is a Substitute

- Substitutes for Cc
 Substitutes for Aluminum Cola
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- Aluminum used internally by Alcoa to make finished products
- **Aluminum from recycling**

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What is a Substitute

- Substitutes for Cc Substitutes for Aluminum Cola

 - Pepsi? - Other Carbonated Beverages?
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- Aluminum used internally by Alcoa to make finished products
- **Aluminum from recycling**
- Ingots made abroad and imported into the US

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What is a Substitute

- Substitutes for Cc Substitutes for Aluminum Cola

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- Coffee?
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What is a Substitute

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The Cellophane Fallacy

 In 1956, Dupont sold over 75 percent of the cellophane in the United States.



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The Cellophane Fallacy

- 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.



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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.



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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 Cellophane Fallacy

• The court found significant cross elasticity and thus included them in the market. This is today known as the *cellophane fallacy*.

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The Cellophane Fallacy

- The court found significant cross elasticity and thus included them in the market. This is today known as the *cellophane fallacy*.
- The data could just indicate that Dupont had priced its product aggressively to exploit its monopoly position.



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Grinell

- 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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Just what is the product

• 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.

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Just what is the product

- 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?

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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.

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Peripherals

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

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Peripherals

- Acme Widgets makes a large number of widget machines and an attachment that automatically paints the widget.
- There are competitors for widget makers, <u>and</u> for plug-compatible painting machines.

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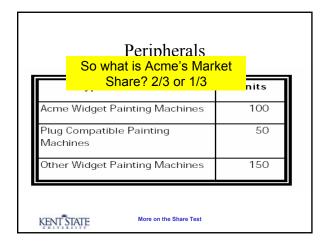
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Peripherals

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

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Geographic Markets

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

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Geographic Markets

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

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End
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