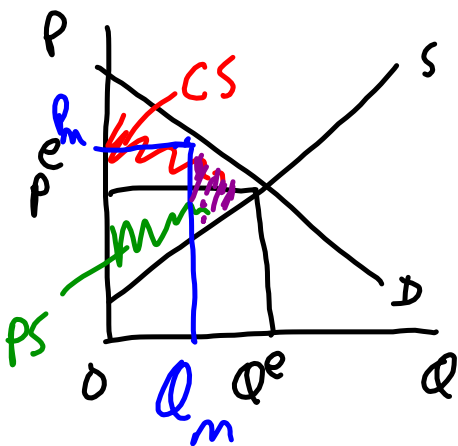


Monopoly power + regulation. Q4, p325

"market failure" - any factor that prevents (p^e, Q^e)



- monopoly power leads to $p > p^e$

(P_m, Q_m)

DWL -

- regulate monopoly power
- Sherman Act 1890
 - ↳ mergers control
 - horizontal - within industry
 - vertical - supplier of inputs or distribution
 - financial -
- Clayton Act 1914
- Robinson - Patman 1936
 - ↳ conduct
 - tie-in sales
 - bait & switch
 - advertising

AT&T "Ma Bell"

1984 - Break up into 8 regional phone systems

- local level → natural monopoly
- one network

- national level (LD) - MCI vs Bell

Bell using local monopoly to cross-subsidize LD - offer lower LD prices to compete

- Microsoft - using op system
monopoly to extend to
applications

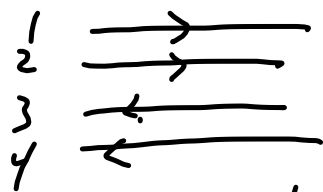
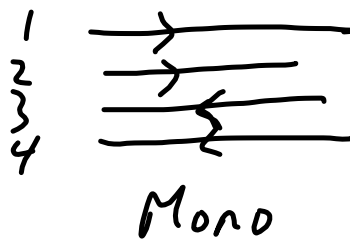
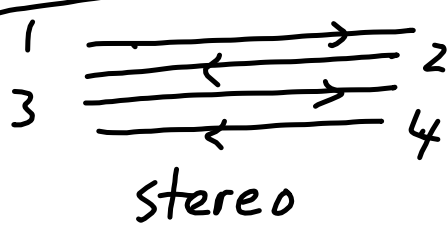
- browsers - Explorer - unbundle
- Netscape

↳ why Microsoft a monopoly?

- network externality
greater probability share
files if op system same

- VHS vs Betamax (Sony)

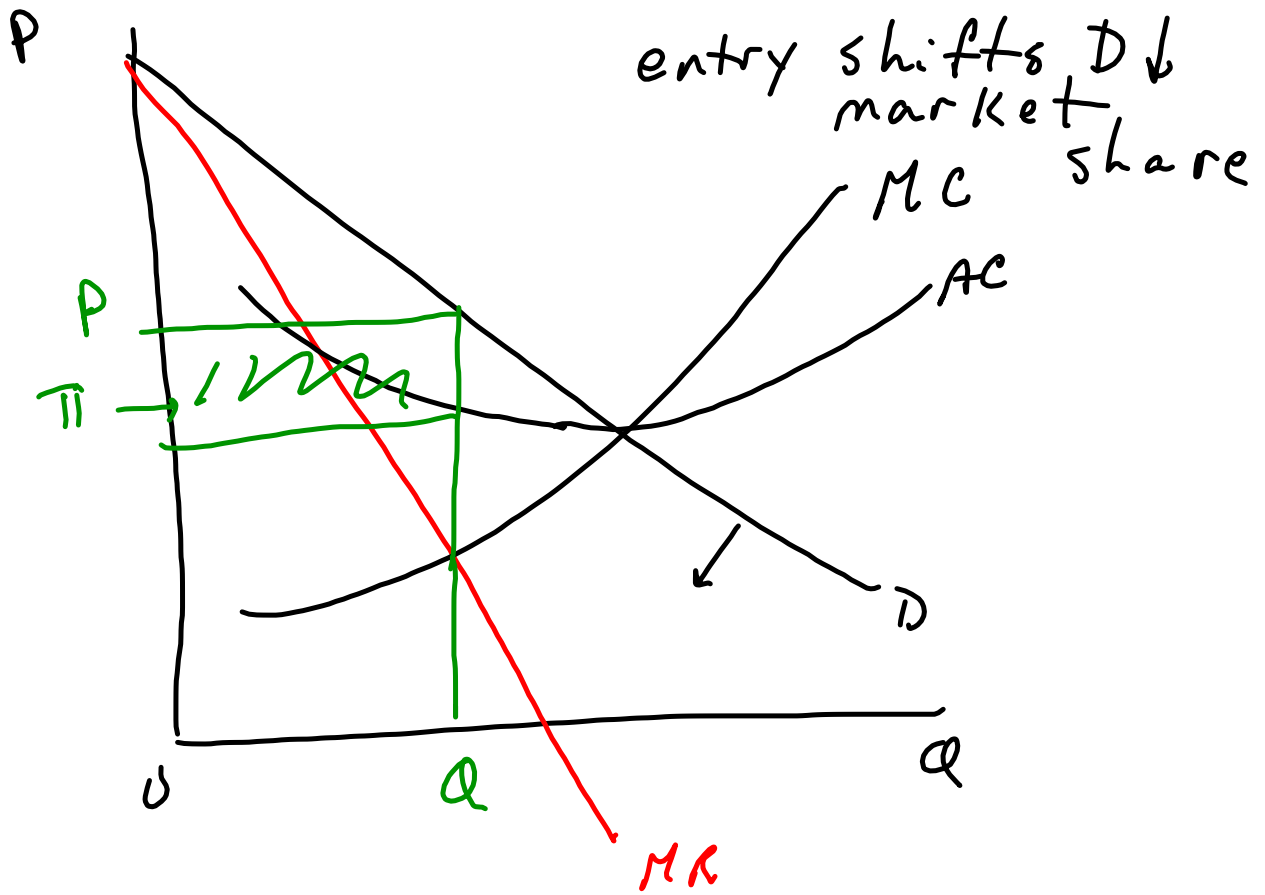
Phillips - compact cassette tape

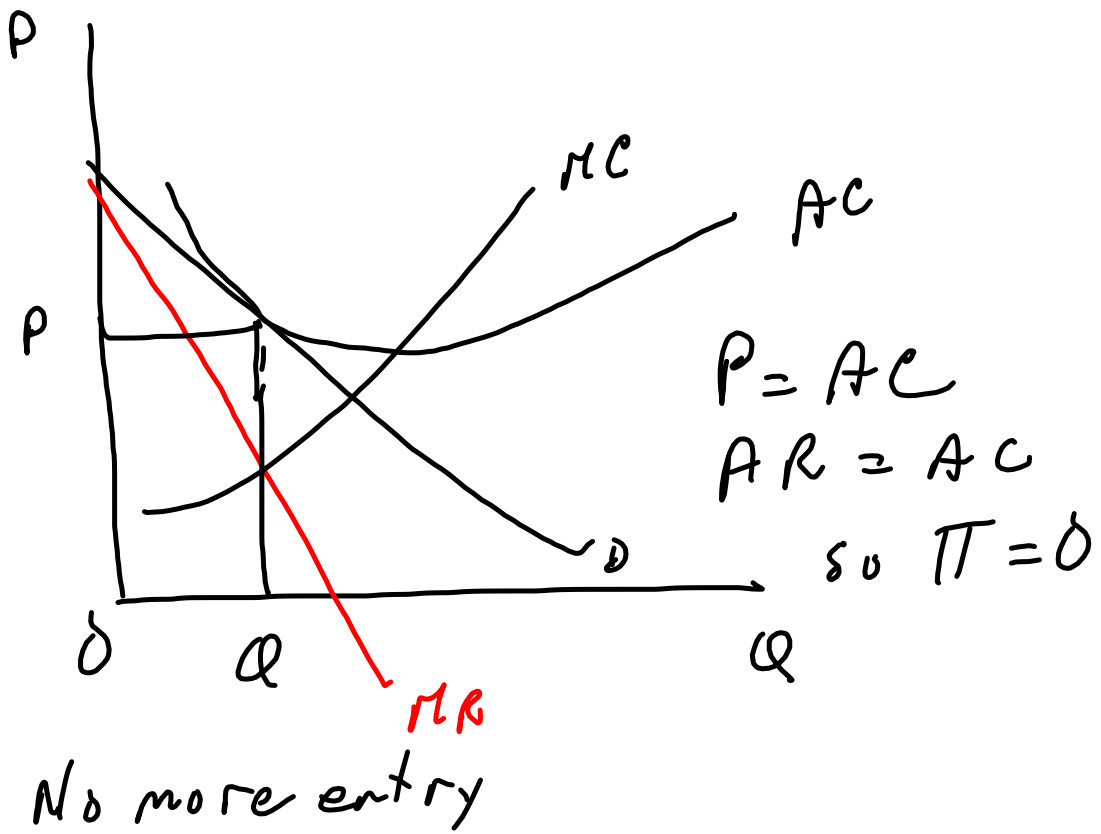


cassette tapes
mono ≡ stereo

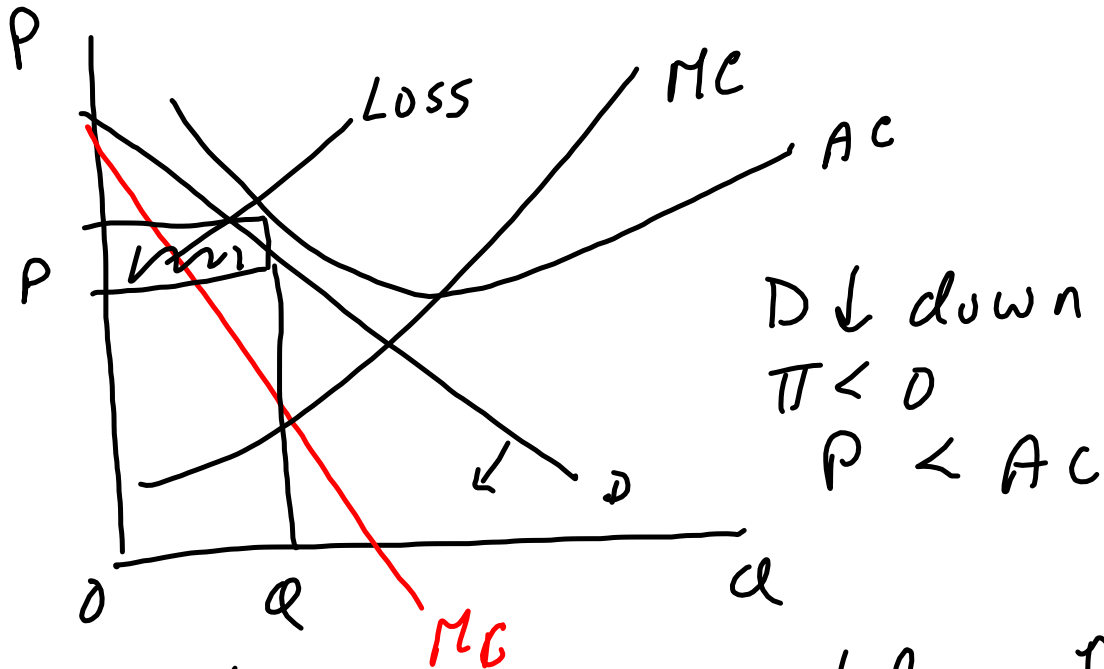
Monopolistic Competition

- entry by immitators -
copy but different
- not violate patent
- trademark -
- copyright -
- take market share





- exit \rightarrow change in tastes or new class of product appears



- exit \rightarrow D for individual firm \uparrow
 $P = AC$

Behavior - product differentiation

- label

- advertising - Burger King
better than
McD -

↳ persuasion .
↳ information

Ads → create brand identity

costly -

lose value of brand if product
quality ↓

VW

- Chipotle

- Jack in the Box - e coli

- Wells Fargo - customer fraud

- brand name incentive to maintain
quality

all ads cost \$ - contribute to
brand name

- Why advertise? - competitors do it

- Prisoner's Dilemma

		B	
		1	2
A	1	optimal 0, 0	0, 1
	2	1, 0	-1, -1

$1 > 0$ B
 $1 > 0$ A
 spending
 2 dominant
 strategy

Nash Equil.