Cooperation

Many Bases For Cooperation
• AMD/American Austin/San Jose flights
• No negative advertisements
• Elements of cooperation
  – Shared interest
  – Punishment for misbehavior
  – Recovery

Cooperation Summary
• Cooperate on a variety of matters, not just price,
• Identify the basis for cooperation,
• Share the proceeds of cooperation sufficiently that the relevant parties participate,
• Identify punishments for misbehavior that are an adequate deterrent,
Cooperation Summary, Cont’d

• Identify punishments that will credibly be used,
• Set a trigger to start a punishment,
• Fix a method for recovering from punishment and returning to cooperation,
• A fixed length punishment is often a good choice – if it is credible.

Problems of Price Cooperation

• Confessions
• Too many firms
• Product differentiation
• Reaction time
• Random demand
• Motivating managers

Problems, Continued

• Efficient allocation and bargaining
• Unenforceable contracts
• Communication is risky
• Small or failing firms
• Entry, substitutes
• Quality competition
Solutions

- Industry association
- Published price lists
- Exclusive territories
- Pre-announced price increases
- Incrementalism

Solutions, Continued

- Multi-market contact
- Multi-level contact
- Excess capacity
- Grow (or crush) small or bankrupt firms

Antitrust Laws

- Two part test
- Did firm have monopoly power in a market?
- Did firm engage in illegal activity to extend or maintain that power?
- As opposed to “a superior product, business acumen or historic accident”
Some Potentially Illegal Tactics

- Tying (must buy one good to get another)
- Requirements Tying (buyer agrees to buy all its needs from the seller)
- Exclusive Dealing (buyer agrees to deal only with seller)
- Exclusive Territories (Buyer agrees to operate only in specified region)
- Resale Price Maintenance (Buyer agrees to a minimum resale price)
- Predatory Pricing (pricing below cost to eliminate a competitor)