
Discussion: Behavioural economics and its impact on competition policy

Jan Potters
Tilburg University





dilbertcartoonist@gmail.com

© 2010 Scott Adams, Inc. /Dist. by UFS, Inc.

www.dilbert.com 11-27-10



www.dilbert.com scottadams@aol.com



11-07-03 © 2003 United Feature Syndicate, Inc.



“Buyers’ ignorance and sales techniques catering to buyers’ ignorance are perhaps an even more important source of oligopoly power than economies of scale”

“Hence the stress in some advertisements on the technical or chemical complexity of products”

Tibor Scitovsky (AER, 1950)
Ignorance as a source of oligopoly power

Summary

- Review of behavioral economics
- Review of behavioral IO
- Relevance for competition policy
- Relevance for remedy design / consumer policy

Comments

- Comprehensive
 - deals with most behavioral issues
- Structured
 - see figure
- Detailed
 - deeper than most previous studies
- Balanced
 - ‘non-partisan’ conclusions

“Behavioral antitrust is a side act and not (yet) ready for the main stage.” (van den Bergh, 2013)

Behavioral economics

- Main corrections to *homo economicus*
 - bounded rationality, bounded will-power, bounded self-interest
- Behavioral IO
 - Behavioral biases have been viewed as a (4th) market failure
 - misallocations
 - market power
 - anti-competitive conduct
 - More competition does not always correct for this and may even lead to worse outcomes .

Structured

Section 4:
**Practical implications of behavioural economics
for competition investigations**

**Assessment of
market power**

- market definition
- market power

**Assessment of
conduct**

- abuse of dominance
- mergers
- restrictive agreements

Empirical techniques

- econometric techniques
- surveys
- experiments

Section 5:
Behavioural economics and remedy design

Conclusions

- Behavioral economics provides useful insights to understand and assess market outcomes.
 - market power
 - conduct
 - methods
- Competition law and economics does not have to be rewritten, and standard competition policy tools can account for biases sufficiently.
- Consumer protection policies are perhaps better suited to remedy consumer biases than competition policy (or a combination, like the ‘market investigation instrument’ in the UK).

Consumer policy

- Traditional:
 - Information, transparency, and education
 - Often shown to be ineffective
- Behavioral
 - opt-in versus opt-out
 - standardization of pricing information
 - standardization of products
 - cooling-off periods
 - Not always “soft”.
 - Possible interaction with collusion!
- More research is needed!

Behavioral economics of firms

- Bounded rationality is typically deemed to have greater relevance where individual consumers, as opposed to companies, are involved.
 - stakes are higher
 - experience / training / advice
 - groups rather than individuals
 - competition wipes out irrationality
- “Behavioral antitrust is a side act and not (yet) ready for the main stage.” (van den Bergh, 2013)
- “Misbehavioral economics: the case against behavioral antitrust” , Wright and Stone (2010)

Behavioral economics of firms

- At the same time:
 - biases apply to professionals as well
 - think of CEO overconfidence
 - Frechette 2011 for a survey of 13 experimental studies comparing students and professionals
 - groups can lead to discipline, group think, cults and are not necessarily more rational
 - profit maximization is hindered by principal-agent problems
 - rationality does not always lead to higher profits

Behavioral economics of firms

- Implications for competition policy
 - reference-dependent preferences
 - asymmetric between gains and losses
 - risk-seeking in the domain of losses
 - effect of sunk costs
 - competitive industries are more likely to tacitly collude

Role for experiments

- Advantages:
 - control and observation
- General insights
 - tacit collusion is more prevalent in Bertrand than Cournot markets
 - cartels are most profitable in medium-sized industries
 - effects of communication and information exchange
 - spill-over effects of coordination in one domain; e.g., on capacity choices or R&D investments; on price collusion

Role for experiments

- Specific
 - design of leniency policies
 - alternative remedies in merger cases
 - facilitating practices
 - create a counterfactual in the lab
 - replicate the key market parameters
 - compare outcome with and without the practice
 - Grether and Plott (1984), Ethyl case
 - advanced notification of price increases, MFC clause.

Thanks for your attention.

Jan Potters

Energy market in the Uk

- Wilson en Waddams-Price (2007) ‘Do consumers switch to the best supplier?’
- investigate 472 consumers who switched supplier, and said they did so only because of the price !
- they save on average 40% of what they could have saved
- only 15% selects the cheapest supplier (which is no better than had they chosen randomly)
- about 25% switched to a more expensive supplier

Mortgages in the US

- Woodward (2007) 'A study of closing costs for FHA mortgages'
- average contract fee about \$3,400
- Blacks and Hispanics pay \$400 more
- in neighborhoods with low education fees are on average \$1160 higher than in more educated neighborhoods