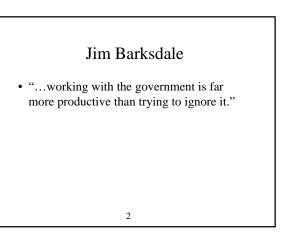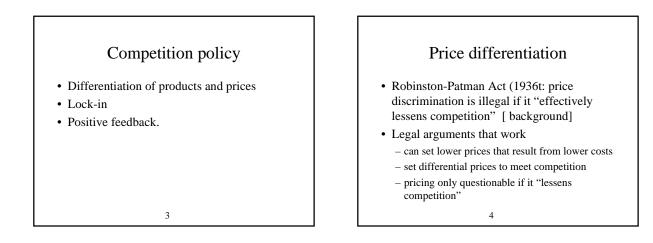Strategic
Computing and Communications
Technology

CS 294, EE 290X, IS 290, BA 296
Spring 98

Information Policy

by
Hal R. Varian

Jim Barksdale

- "…working with the government is far more productive than trying to ignore it."

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Competition policy

- Differentiation of products and prices
- Lock-in
- Positive feedback.

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Price differentiation

- Robinston-Patman Act (1936t: price discrimination is illegal if it "effectively lessens competition" [background]
- Legal arguments that work
  – can set lower prices that result from lower costs
  – set differential prices to meet competition
  – pricing only questionable if it "lessens competition"

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How differential pricing can hurt consumers

- 100 people wtp $20, 1000 people wtp $6
- optimal flat price = $6
- 100 people wtp $20 for early edition, $5 for later, 1000 people wtp $5 for later
- optimal to sell at $20 and $5
- consumers now are worse off

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How differential pricing can benefit consumers

- 1000 consumers wtp $20, 100 people wtp $6 for early, $5 for later
- optimal flat price = $20
- versioning: sell for $20 and $5
- key: will versioning increase size of market?

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Competition policy

- Sherman Act, Clayton Act
- protects competition as a process
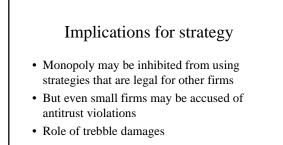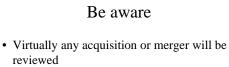- monopoly isn't illegal, but attempt to monopolize is

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Government choices

- Do nothing
- Act on basis that monopoly was illegally obtained
  - break up
  - prohibit suspect practices
- Regulate the monopolist

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Implications for strategy

- Monopoly may be inhibited from using strategies that are legal for other firms
- But even small firms may be accused of antitrust violations
- Role of trebble damages

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Be aware

- Virtually any acquisition or merger will be reviewed
- Watch out for meeting with rivals
- Document your compliance

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Mergers

- Adobe/Aldus
- Microsoft/Intuit
- Silicon Graphics/Alias/Wavefront

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Cooperative standards setting

- standards setting…or cartel?
- Watch out for prices and terms agreements
- Performance standards as barrier to entry
- Patent cross licenses
- Interconnection agreements

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Single firm conduct

- Exclusive dealing
- Tying

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Regulation

- Control genuine monopoly power where it exists

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Achieving critical mass

- private sector can be creative about network externalities
  - video stores
  - Kodak film system
- important basic technology needs to be proven or demonstrated

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Universal service

- corollary to network externalities?
- Geography
  - incorporated into land prices
- Income level
  - merit goods
  - why do some not have service?

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