Comments on “Price Discrimination, Competition and Antitrust”

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The Pros and Cons of Price Discrimination
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The Basic Conclusion is Sound

- The vast majority of economists agree that price discrimination should not be condemned as a general matter or even viewed with suspicion.
- The vast majority of U.S. economists base their views on the current understanding of the impact of price discrimination on economic welfare and do not consider "fairness."

Limited Existing Statutory Bans

- Some Article 82 cases have treated price discrimination essentially as per se illegal, but Article 82 applies only to dominant firms.
- The price discrimination law in the U.S. (the Robinson Patman Act) applies only to sales of *goods* to competing *resellers*, and it has a meeting competition defense.

Relevant Older Economic Analysis

Spatial competition with price discrimination was usefully analyzed in some old economic literature.

- Edgar M. Hoover, Jr., Spatial Price Discrimination, *Review of Economic Studies*, 4, 182-91 (1937).
- A.P. Lerner and H.W. Singer, Some Notes on Duopoly and Spatial Competition, *Journal of Political Economy*, 45, 145-86 (1937).
- Carl Kaysen, Basing Point Pricing and Public Policy, *Quarterly Journal of Economics*, 43, 289-314 (1949).

Relevant Recent Economic Analysis

Spatial competition with price discrimination was also usefully analyzed in recent economic literature.

- Jacques-Francois Thisse and Xavier Vives, On the Strategic Choice of Spatial Price Policy, *American Economic Review*, 78, 122-37 (1988).
- Kenneth S. Corts, Third-Degree Price Discrimination in Oligopoly: All-Out Competition and Strategic Commitment, *RAND Journal of Economics*, 29, 306-23 (1998).
- James C. Cooper, Luke Froeb, Daniel P. O'Brien, and Steven Tschantz, Does Price Discrimination Intensify Competition? Implications for Antitrust, *Antitrust Law Journal*, 72, 327-73 (2005).

Robustness of Conclusions

- Price discrimination lowers average price if there is *best response asymmetry*, in that one competitor wants to lower prices where the other wants to raise them.
- Some models exhibit *best response symmetry*, so price discrimination harms consumers. This may be most likely the discrimination is across countries.

Long Run Considerations

- If price discrimination lowers average price, it results in fewer competitors in long run equilibrium.
- The net effect of price discrimination remains very slightly beneficial unless fixed costs are high.

Benjamin F. Hobbs, Mill Pricing vs. Spatial Price Discrimination under Bertrand and Cournot Spatial Competition, *Journal of Industrial Economics*, 35, 173-91 (1986).

Issues with Dominant Firms

- Price discrimination can greatly reduce the cost of predation by allowing a dominant incumbent to reduce price only to customers targeted by an entrant.
- Discriminatory bundled discounts by a dominant firm can exclude efficient smaller rivals.
- Price discrimination by a dominant firm in the sale of complements is likely to harm consumers.

Detecting Collusion

- Systematic analysis of pricing data, applying the insights of economic theory, is rarely used to detect collusion.
- Casual observation, especially of unusual parallel price increases, is relevant in detecting collusion, and price discrimination does not make it any less useful.