

(DE)REGULATION OF BUSINESS

The Micro Economy Today, 11th Edition
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Chapter 12

I. What Can Government Do To Restrain Monopoly Power?

A. Anti-Trust Legislation

1. This is a special set of laws intended to:

a.

b.

2. Major Pieces of Anti-Trust Legislation (see Table 9.1 on page 202 of the text)

a. **Sherman Act (1890)**

Passed in response to the “questionable” business practices of the “robber barons” in the late 19th century

Prohibits price fixing and other “conspiracies in the restraint of trade”

Companies that violate this law can be faced with \$1 million in fines and penalties, executive officers of corporations can be subject to jail time, and consumers can recover treble damages in court

b. Clayton Act (1914)

Passed to outlaw specific firm behavior not covered by the Sherman Act

Prohibits price discrimination, exclusive dealing agreements, certain types of mergers and interlocking boards of directors among competing firms

c. Federal Trade Commission Act (1914)

Created a government agency to study industry structure and behavior so as to better identify anti-competitive practices

Prohibits false and deceptive advertising

B. Economic Regulation can be economically justified in a market where a

_____ is present.

1. Definition:

2. This is likely to emerge in markets where:

3. This is a _____ market structure, because a _____ will be the low-cost producer.

4. The problem lies with the _____ of this single firm.

C. Graph for analysis



II. Regulatory Options

A. Economic Regulation Option #1:

1. The government forces the natural monopoly to charge customers:

2. Results (relative to the unregulated outcome)

3. Illustrate on graph

4. Potential Problems

a.

b.

B. Economic Regulation Option #2:

1. The government forces the natural monopoly to charge customers:

2. Results (relative to the unregulated outcome)

3. Illustrate on graph

4. Potential Problem

C. Economic Regulation Option #3:

1. The government forces the natural monopoly to:

2. Result (relative to the unregulated outcome)

3. Illustrate on graph

4. Potential Problem

D. Imperfect Answers

1. In a monopoly market, the profit motive _____ to generate optimal outcomes.

2. However, we CANNOT _____ our way to a perfect outcome, either.

3. The choice for society is REALLY between: