

Workshop on Effective Competition in Network Industries

Discussion

Measuring competition? A conceptual framework

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„Economic Issues“ (G3)



“Profit elasticity as a measure for competition” - Summary

- PE = elasticity of firm's profit with respect to its cost
 - PE large → high level of competition
 - PE small → low level of competition
- advantage over PCM: takes reallocation effect into account
- Theoretically: appealing
- Practically: hard to work with cost data

Using Profit Elasticity in a cartel authority

- Choose sectors for a sector inquiry
 - Which sectors are likely to have a low level of competition?
- Evaluation of cartels:
 - Does PE change after a cartel has been terminated?
- Evaluation of merger control:
 - Does PE change after a merger has passed merger control?

Choosing a sector for sector inquiry

- § 32e ARC: Investigations into Sectors of the Economy and into Types of Agreements
If the rigidity of prices or other circumstances suggest that domestic competition may be restricted or distorted, the Bundeskartellamt [...] may conduct an investigation into a specific sector of the economy [...].
- How to choose a sector inquiry:
 - select sector with a low PE **OR**
 - other criteria
- Current sector inquiries are:
 - Mineral oil
 - Milk
 - Wholesale electricity

Measuring competition by means of a sector inquiry

- Measuring competition **within** a sector
 - look at changes in market shares over time
 - look at changes in prices over time
 - for B2B: look at duration of contracts
 - for B2B: look at changes in customers
- For wholesale electricity:
 - investigate $RSI_i = \frac{\text{Capacity} - \text{Capacity}_i}{\text{Demand}}$