Ministry of Industry Investment & Commerce
Jamaica's Business Ministry

FAIR TRADING COMMISSION

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"PROMOTING COMPETITIVE MARKETS"

Fundamental Concepts in

Competition Economics

Prepared by:
Chrishaun NELSON, Summer Intern

Fair Trading Commission
OF JAMAICA

What Will Be Covered

01 Market Power

02 Monopoly

03 Dominance

04 Cartels

05 Mergers

06 Challenged Conduct

07 Theory of Harm
(Statement of Anticompetitive Theory)

08 Relevant Market

Market Power

In economics, ***market power*** is described as **the ability of an enterprise to profitably set price above marginal cost**.

The proper benchmark against which market power is assessed is **the price that would have prevailed in the absence of the alleged competitive restraint**.

Competition authorities observe the following competitive constraints in their assessment of market power:

1. Existing Rivals

Presence of Current Competitors

2. Potential Rivals

Potential threat of new entrants to the market

3. Buyer Power

The ability for consumers to control prices through their purchasing power

4. Suppliers

Monopoly

A **monopoly** exists when there is a single **supplier of a good or service** for which there are **no close substitutes.**

Types of Monopolies

1. Market-Created Monopolies

   Economies of scale, sole ownership of a critical input.

2. Government-Created Monopolies

   Government grants, licences, or patents restrict entry.

Social Cost of Monopolies

1. Deadweight Loss

   Output below socially optimal level; welfare permanently destroyed.

2. Higher Prices

   Sets prices above marginal cost without competitive discipline.

Dominance

An enterprise is considered to have market dominance if it "**operates to an appreciable extent independently of consumers and competitors**" in regards to pricing strategies and other commercial decisions.

50%

Market share at which the FTC makes the rebuttable presumption of dominance.

How Competition Authorities assess Dominance

1. ***Market Share***

   High market share is a non-conclusive indicator of dominance.

2. ***Barriers to Entry***

   Whether regulatory, capital, or network barriers protect an enterprise's market position.

3. ***Buyer Power***

   Whether consumers effectively discipline pricing.

Cartels

A cartel comprises two or more competitors coordinating their behaviour at the expense of consumers and production efficiency.

01 Price Fixing

Competitors agree on prices, eliminating price competition.

02 Market Sharing

Dividing customers, territories, or product segments between rivals.

03 Supply Restriction

Limiting output to keep prices artificially high.

04 Bid Rigging

Coordinating bids in tenders to predetermine the winner.

Mergers and Acquisitions

A **merger** refers to **an agreement to amalgamate the assets of two or more businesses.**

An **acquisition** describes a transaction in which one enterprise acquires ownership and control of another enterprise.

Mergers and Acquisitions have the potential to increase economic efficiency and impede competition.

Potential Benefits

1. Greater economies of scale & cost efficiency
2. Improved resource allocation
3. Enhanced innovation capacity
4. Strengthened competitive position internationally

Potential Harm

1. Higher Prices
2. Reduced product quality
3. Fewer choices for consumers
4. Slower rates of technical innovation

Challenged Conduct

A ***challenged conduct*** refers to **business practices that are investigated as a potential breach of competition law.**

The challenged conduct is clearly identified by competition authorities at the onset of an investigation.

Examples of challenged conduct would include *price fixing*, *market restriction*, *resale price maintenance*, and *bid rigging*.

Theory of Harm

The ***Theory of Harm*** is a scientific statement of how the challenged conduct constitutes a breach of competition law.

A theory of harm has **two (2)** main purposes:

01 Explains why the challenged conduct satisfies the relevant tests and constitute an infringement of competition legislation and therefore causes harm to competition.

02 Justifies why competition authorities should devote its resources to investigating the challenged conduct.

Relevant Market

Defining the ***relevant market*** means determining the scope of commerce that is most likely to be adversely affected by the challenged conduct.

The Hypothetical Monopolist Test (the SSNIP test)

- An analytical tool used by competition authorities to define the relevant market.

A relevant market has **two (2)** dimensions:

1. Product Market

Goods or services that are close substitutes for one another from the consumer's perspective.

2. Geographic Market

The area within which competition takes place and where competitive conditions are sufficiently homogeneous.

Market Concentration

Market concentration uses market share data to measure the extent to which an enterprise faces competition from rival suppliers.

One of the most popular measure of market concentration is the Herfindahl-Hirschman Index (HHI).

The HHI is calculated by **summing the squares of the market shares** of all rivals in the relevant market.

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ANY QUESTIONS?

Thank You