Franchise Regulation

Telecommunications Economics
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Agenda
- What?
- Issues
- Advantages/disadvantages
- Practice

Franchise
- Government privilege
- For best price/quality

Franchise
- Competition:
  - not in the Market but
  - for the Market
- Information
  - Revealed by firms
  - Not regulatory discovery

Issues
- Number of Bids
- Efficiency
- Evaluation
- Enforcement

Dangers
- Uncompetitive bidding
- Collusion
- Strategic Advantage
- Asset handover
- Contract Specifications & Monitoring
Strategic Advantage

- Asymmetries of Information
- Experience of Incumbents

Asset Handover

- New operator take over assets for efficiency
- How valued?
  - Bilateral monopoly
  - New -- no more that replacement value
  - Old -- no less that scrape value

X, Y value to A & B, respectively
Ca & Cb cost of bargaining
Z paid by B to A for its assets
If A wins, receives X, loses X - Ca.
A's incentive X - Z + Ca
If B wins, receives Y - Z - Cb
Therefore A incentive greater iff
X + Ca + Cb > Y
Cost of bargaining gives A advantage

Z does not make a difference in bargaining.
However, if Z >= Y - Cb B cannot make positive profit and will not compete
Z influences the level of bids.
over or under invest
Uncertainty about Z, ex ante

Operating Franchise

- Problem suggest
- Operative not complete
  Franchise desirable

- Public Authority
  Investment decisions