Public Policy Overview

- Goals
- Instruments
- Obstacles

"...unleashing monopolies before real competition could mean...

- Higher prices for consumers
- Hinder competition

Agenda

- Public Policy Overview
- Role of Competition
- Competitive Overview
- Mergers/Acquisitions
- Price Discrimination
- Cross-subsidies
- Conclusion

Public Policy Overview

- Cost Minimization
- "Correct" Prices
- Rent Extraction (Monopoly)
- Equity?

"...unleashing monopolies before real competition could mean...

- Higher prices for consumers
- Hinder competition
- Transitional safeguards needed
Public Policy Overview

- "...unleashing monopolies before real competition could mean..."
- Transitional safeguards needed
- RBOC's 14 points

Incentive/Price Caps Regulation

- Competitive Entry Encouraged
- Limit on the Incumbent's Prices
- Productivity Factor

Role of Competition

- Incentive for Efficiency
  - Prices => costs
  - Pressure to reduce costs
  - Selection of more efficient firms
  - Promote innovation
  - Diminish regulatory imperfections

Additional Motivation for Competition

- Product Differentiation
- Cost Differences
- Benchmark Competition (Yardstick)
Competitive Policy Overview

- **Institutional Advantage** (Incumbent)
- **Technology Advantage** (Incumbent)
- **Regulatory/Competitive Synergy**


Competitive Policy Overview

- **Institutional Advantage** (Incumbent)
  - Institutionalized cross-subsidies
  - Name recognition
  - Established customer-base

Competitive Policy Assessment

- Competitive Entry
- Merger/Acquisition Policy
- Price Discrimination
- Cross-Subsidies
- Universal Service Obligations

Mergers/Acquisitions/Joint Ventures

- Principles
- Policy
- Recommendations
Merger Policy Impact

- Horizontal Mergers Allowed

- Eliminates Competition
- Removed Benchmark Competition
- Economies of Scale?
- Access Bottleneck Enhanced?

Vertical Mergers

- Intermediate Price Problem
- Market Foreclosure
- Economies of Scope

Price Discrimination

- Principals
- Policy
- Recommendations

Price Discrimination

Interdisciplinary Telecommunications Program
University of Colorado & Hagler Bailly

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Price Discrimination

- Cost Justified
- Not Simply Uniform Price
- Not Pejorative
- Non-linear Prices

Price Discrimination

- First-degree (perfect)
  - Captures total consumers' surplus
  - Pareto efficient / output
  - Cannot improve CS + PS
  - Demand curve is marginal revenue
  - Example
    - Generic
    - Doctor?

Price Discrimination

- First-degree
- Second-degree
- Third-degree

Price Discrimination

- First-degree
- Second-degree (Non-linear Pricing)
  - Group customers
  - Different prices for groups
  - Self-selecting
  - Example
    - Quality or quantity
    - May be Pareto improving

Price Discrimination

- First-degree
- Second-degree
- Third-degree

Price Discrimination

- First-degree
- Second-degree
- Third-degree

Price Discrimination

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Price Discrimination

- First-degree
- Second-degree
- Third-degree


### Second-degree Price Discrimination

- **Non-linear Pricing**
- **Efficiency Improved**
  - Examples:
    - Mr. Bid and Little
    - Peak/Off-peak pricing
    - Self-selecting two-part tariffs

- **Price Discrimination**
  - First-degree
  - Second-degree
  - Third-degree
    - Different Prices, Different Customers Class
    - Business/Residential
    - Rural/Urban

- **Non-linear Pricing (Second-degree)**
  - Volume (quantity) discounts
  - Declining block pricing
  - Bulk tariffs
  - Efficiency / welfare enhancing

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**Notations:**
- \( P_1 \): Lower price
- \( P_2 \): Higher price
- \( Q_1 \): Quantity for lower price
- \( Q_2 \): Quantity for higher price
- \( A \), \( B \), \( C \), \( D \): Points on the graphs representing different price levels and quantities.

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**Graphs:**
- Graph 1: Shows the relationship between price and quantity for second-degree price discrimination.
- Graph 2: Illustrates the concept of non-linear pricing with shaded areas indicating the volume discounts.
- Graph 3: Depicts the non-linear pricing concept with price levels \( P_1 \) and \( P_2 \) and quantities \( Q_1 \) and \( Q_2 \).

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**Footnotes:**
- 31-36
Price Discrimination

- First-degree
- Second-degree
- Third-degree
  - Different prices
  - Different customer classes
  - Example

Price Discrimination

- First-degree Discrimination
- Second-degree
- Third-degree
  - Not Uniform Prices
  - Non-linear Pricing
  - Efficiency/Profits Improved
- Predatory Pricing

Cross-Subsidies

- No Market Test
- Inefficient
- Avoids Competition
- Anti-Competitive

Universal Service

- Inefficient
  - Not Marginal Subscribers
  - Not Targeted
  - Not Desired
- Incidence Not Addressed
- Companies Subsidized

Incidence

- Service Subsidy
- Demand Patterns
- User Subsidy

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### Agenda

- Public Policy Overview
- Pre-Telecommunications Act
- Interconnection Pricing
  - Problem
  - Goals
  - Solution?

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### Intermediate Pricing

- See separate presentation