ECON 4820 Strategic Competition Spring 2012

Seminar set 4 – 13 April

Question 1

(exam 2006)

A crucial question is whether innovation of new technology is most likely to take place in monopolies or in competitive markets. Discuss this question in a setting where a firm makes an innovation that is patent-protected forever and that reduces the firm's constant unit costs of production from $\bar{c}$ to $\underline{c}$, where $\bar{c} > \underline{c}$. Discuss, in particular, cases where the firm at the outset is (i) a monopolist, (ii) in a competitive industry, and (iii) a monopolist threatened by an outside firm that will enter and make the innovation unless the monopolist himself does. Make assumptions about market conditions as appropriate for the discussion. Explain, finally, why the private value of this innovation is less than its social value.

Question 2

Because of network externalities, we may observe *excess inertia* among consumers when a new technology arrives, such as when digital cameras arrived in the camera market. Explain why.

Question 3

(slight modification of postponed exam 2004)

Competition authorities typically place considerable weight on market concentration in their practice, for example when evaluating a merger – presumably based on the idea that *there is a relationship between concentration and competition*. Discuss the merits of such an approach.