

BASIC ECONOMICS

CHAPTER 8: Regulation and Anti-Trust Laws

QUESTIONS

1. How does a regulatory commission — whose initial purpose was to prevent a few large companies from unfairly charging high prices because there is no competition — end up supporting a monopoly or oligopoly?

A regulatory commission is a government agency that oversees and regulates certain industries, such as utilities, telecommunications, and transportation. The main goals of a regulatory commission are to protect consumers from unfair practices, ensure adequate service quality, and promote competition and innovation.

2. During the COVID pandemic, governments passed orders that businesses shut down temporarily, and when they did open, to operate under scaled-back capacity. What were the economic “ripple effects” of these decisions?

Income and wealth losses: Lockdowns have reduced the income and wealth of many households, especially those who lost their jobs, faced reduced hours, or had to close their businesses. According to a survey by Colbion, Gorodnichenko, and Weber, about half of all Americans experienced income or wealth losses due to the pandemic, and these losses were larger for lower-income and younger households.

3. Journalists like to describe large companies as using their buying “power” to “force” suppliers to give them volume discounts. Think about that for a minute. Are these suppliers really “forced” to sell to Target or Best Buy? Should the government “do something” about these volume discounts? Who has more power in the U.S. to force manufacturers and retailers to do things a certain way, governments or big businesses?

Volume discounts are an economic incentive to encourage individuals or businesses to purchase goods in multiple units or in large quantities. They can benefit both the buyers and the sellers, as the buyers can save money and the sellers can increase sales and reduce inventory costs.

However, volume discounts can also have some negative effects, such as:

Reducing competition: Large companies that can buy in bulk may gain an advantage over smaller competitors that cannot afford to do so. This may lead to market concentration and less consumer choice.

Distorting prices: Volume discounts may create price discrimination, which means charging different prices to different customers for the same good or service. This may result in some customers paying more than the marginal cost of production, while others pay less.

4. The percentage of sales in a certain industry by a particular company is said to be the portion that the company “controls.” Why is this illogical thinking?

The percentage of sales in a certain industry by a particular company is also known as the market share of that company. Market share is a measure of how well a company competes with other firms in the same market¹. However, market share does not necessarily imply market control, which is the ability of a company to influence the price or output of a product².

Therefore, it is illogical to think that a company controls the portion of the market that it sells to, because there may be other factors that affect the market

5. When do you think it would be appropriate for government to step in and regulate an industry or break up/control a monopoly?

They would care less about the little things the company does/needs and will make an unhappy workplace and will probably make people leave that job and make the working environment dirty and unhappy.