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- Antitrust: The Movement from Form- to Effects-based analysis
  - Horizontal
  - Vertical
- Consumer Protection: The Movement from Form- to Effects-based analysis



# Parallel Changes in EC under Mario Monti

## Mergers

- Merger Guidelines → Substantial Impediment to Effective Competition (SIEC).

## Vertical

- Article 81 Block Exemption: Analysis of effects, including efficiencies

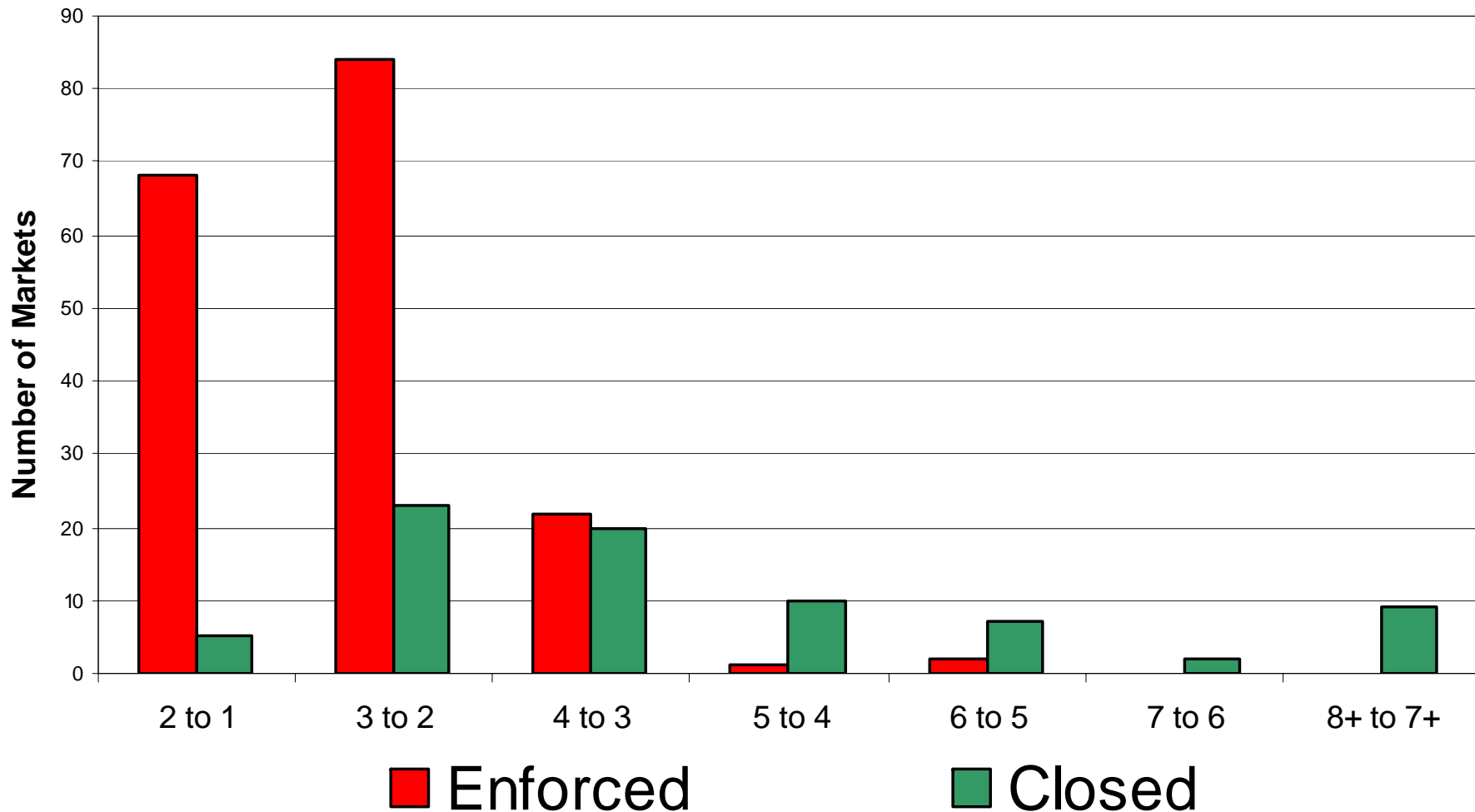
## Procedural

- Best Practices;
- Chief Economist

# Economists Trained to Estimate Effects

- What would have happened
  - absent the merger?
  - absent the vertical restraint?
- Natural experiments
  - Only as good as the data
- Structural models
  - Driven by behavioral assumptions
- Enforcement R&D: How can we improve?

# FTC Merger Enforcement Data 1996-2003, "Other Industries"

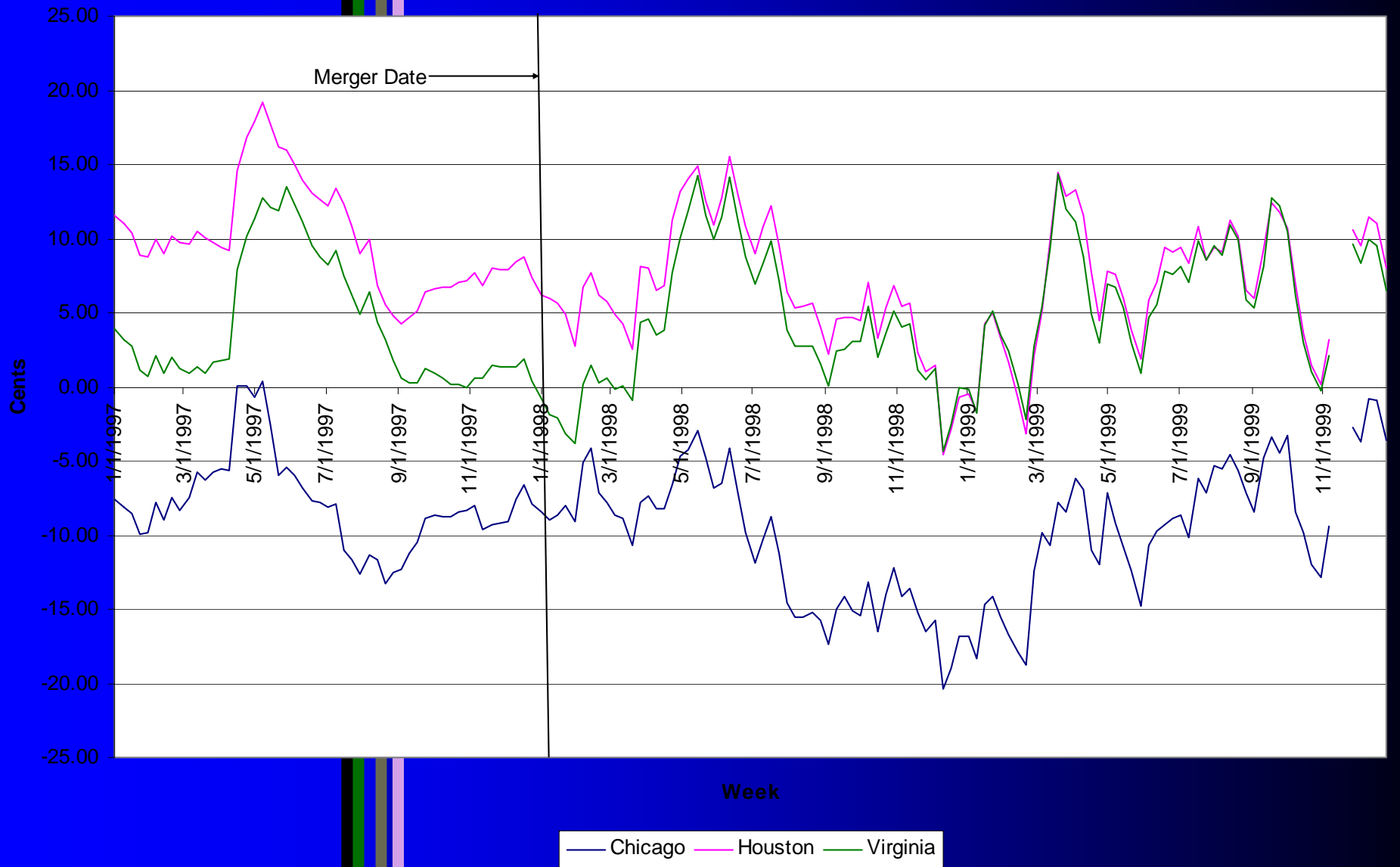






- Examine pricing in a region with a large change in concentration
  - Change in HHI of about 800, to 2260
- Isolated region
  - uses Reformulated Gas
  - Difficulty of arbitrage makes price effect possible
- Prices did *NOT* increase relative to other regions using similar type of gasoline

# Difference Between Louisville's Retail Price and Control Cities' Retail Price



# Evidence on Vertical Integration

- ′ Natural Experiment across US States with and without “divorcement laws”
  - Gasoline “divorcement” laws restrict vertical integration of gasoline refiners and retailers.
- ′ Experimental group (with divorcement)
  - Six states (Hawaii, Connecticut, Delaware, Maryland, Nevada, Virginia), and DC
- ′ Control Group (without divorcement laws)

# Evidence on Vertical Integration (continued)

Divorcement raises the price of gasoline by about 2.7¢ per gallon (loss of \$100 million in consumers' surplus annually).

è Vertical integration REDUCES the ).

# Consumer Protection: Information R&D

- Information Regulations Adopted to Protect Consumers
  - By Prohibiting Harmful Information
  - By Requiring Helpful Information Disclosures
- Empirical Research Needed to Determine Effects of Regulation
  - Health Claims (prohibiting information)
  - Mortgage Disclosures (requiring information)

# Health Claims Encourage Product Innovation & Healthful Dietary Choices

- Manufacturers make healthful product improvements when product-specific health benefits can be advertised (Ippolito & Mathios, 1989)
- Consumers eat more fiber and less saturated fat when product health effects can be advertised (Ippolito & Mathios, 1989, 1996)

# Mandated Info. Disclosures can Harm Consumers

- Regulators Proposed Requiring
  - Mortgage brokers to disclose any compensation, including any yield spread premium (YSP) for loans with above par interest rates
  - Direct lenders, such as retail banks, would not be required to make the disclosure
- FTC staff thought the disclosure would confuse consumers and distort mortgage choices
- FTC staff conducted a study to test the validity of concerns (LacCu to w4D.2a7.86 97.26 TmCs6 cs 0.2 0.3

# Results from “Copy Testing”

Without disclosure,

- 90% identified less expensive loan

With disclosures,

- 70% identified less expensive loan

With two loans that cost the same,

- disclosures caused bias against broker loans

è Cost of mistaken loan choices

- hundreds of millions of dollars per year