The Economics of Predation, What Drives Pricing When There Is Learning by Doing

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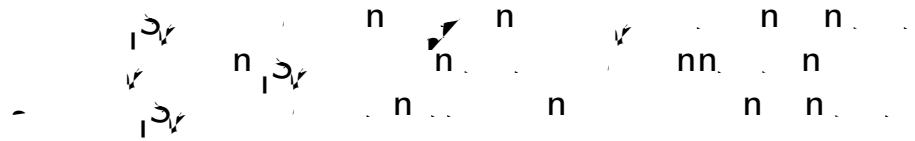
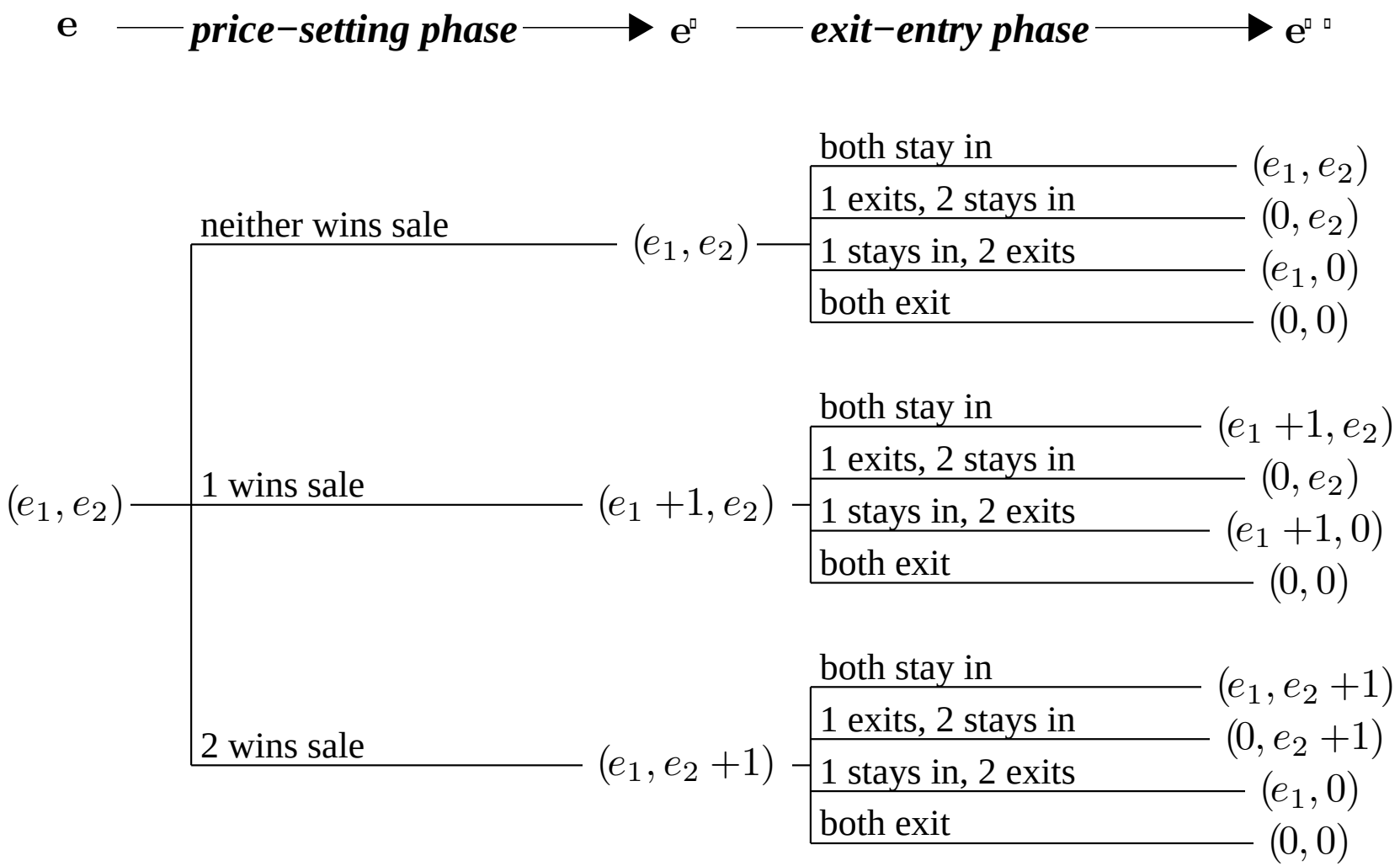


Research Questions and Contributions

- n o pr on or r
  - Routinely and under plausible conditions (generalize Cabral & Riordan 1994).
  - Coexist with non-predatory equilibria for same parameterization (formalize Edlin 2010).
- r pr n
  - Isolate predatory incentives by decomposing equilibrium pricing condition.
  - Decomposition provides coherent and flexible way to define predatory incentives.
- p o pr or n n . o r n on n r r r . on . n p r or n
  - Less severe conduct restrictions have small impact "on average."
  - More severe conduct restrictions have large impact by eliminating equilibria with predation-likl

Decisions and State to State Transitions



Pricing Decision of Incumbent Firm

- V n on E p l o r o o r
  - ...in state e at beginning of period $\rightarrow V(\mathbf{e})$;
  - ...in state $\mathbf{e}'$ after pricing decisions but before exit and entry decisions are made $\rightarrow U(\mathbf{e}')$.
- B n q on

$$\begin{aligned}\mathbf{V}(\mathbf{e}) = \max_{p} \; & (\mathbf{p} - \mathbf{c}(\mathbf{e}))\mathbf{D}(\mathbf{p}.\mathbf{p}(\mathbf{e})) + \mathbf{D}(\mathbf{p}.\mathbf{p}(\mathbf{e}))\mathbf{U}(\mathbf{e}) \\ & + \mathbf{D}(\mathbf{p}.\mathbf{p}(\mathbf{e}))\mathbf{U}(\mathbf{e} + .\mathbf{e}) \\ & + \mathbf{D}(\mathbf{p}.\mathbf{p}(\mathbf{e}))\mathbf{U}(\mathbf{e}.\mathbf{e} +)\end{aligned}$$

- r n on

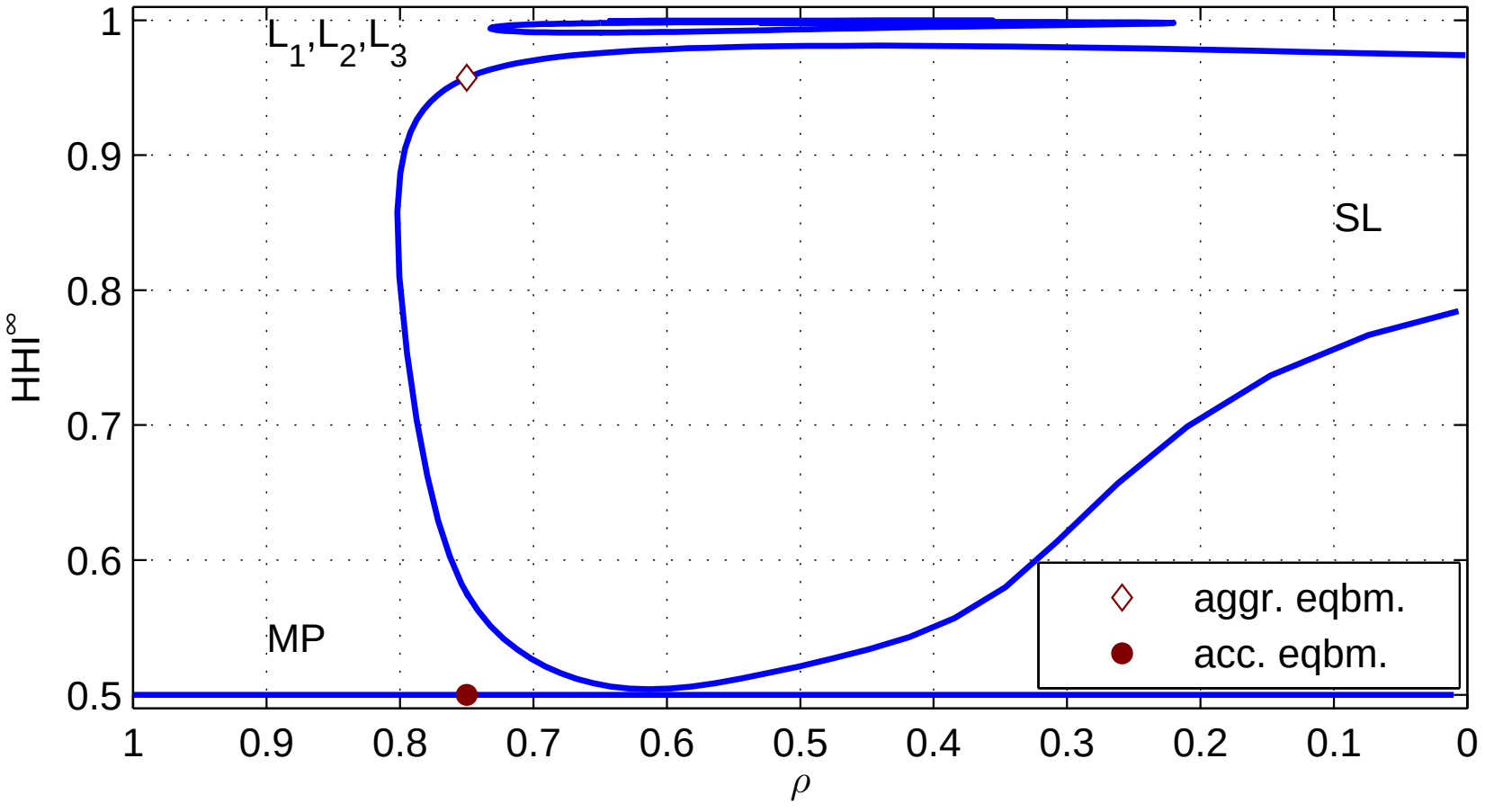
$$\overbrace{\mathbf{mr}(\mathbf{p}.\mathbf{p}(\mathbf{e})) - \mathbf{c}(\mathbf{e})}^{\text{n}} + \overbrace{[\mathbf{U}(\mathbf{e} + .\mathbf{e}) - \mathbf{U}(\mathbf{e})]}^{\text{n}} + \Upsilon(\mathbf{p}(\mathbf{e}))\underbrace{[\mathbf{U}(\mathbf{e}) - \mathbf{U}(\mathbf{e}.\mathbf{e} +)]}_{\text{n}} = .$$

r $\Upsilon(\mathbf{p}(\mathbf{e}))$ on on pro o r n

Competition for and in the Market

	r	o o
r r		
p on r n r n n **HHI**$^{\infty}$		
on		
p on r n r pr **p**$^{\infty}$		
p r or n		
p on r n on r rp **CS**$^{\infty}$		
p on r n o rp **TS**$^{\infty}$		
o n on r rp **CS**^{NPV}		
o n o rp **TS**^{NPV}		

Predation Like Behavior Arises Routinely



Eq , , r orr pon n

Conduct Restrictions

- D n on o pr or n n orr pon o on r on o r n r
- po on r n (p . p (e). e) = on r pro on pro

$$\overbrace{\mathbf{mr}\,(\mathbf{p}\,.\,\mathbf{p}\,(\mathbf{e})) - \mathbf{c}(\mathbf{e})}^{\mathbf{A}} + \left[\sum_{k=} \Gamma^{k}(\mathbf{e})\right] + \Upsilon(\mathbf{p}\,(\mathbf{e})) \underbrace{\left[\sum_{k=} \Theta^{k}(\mathbf{e})\right]}$$