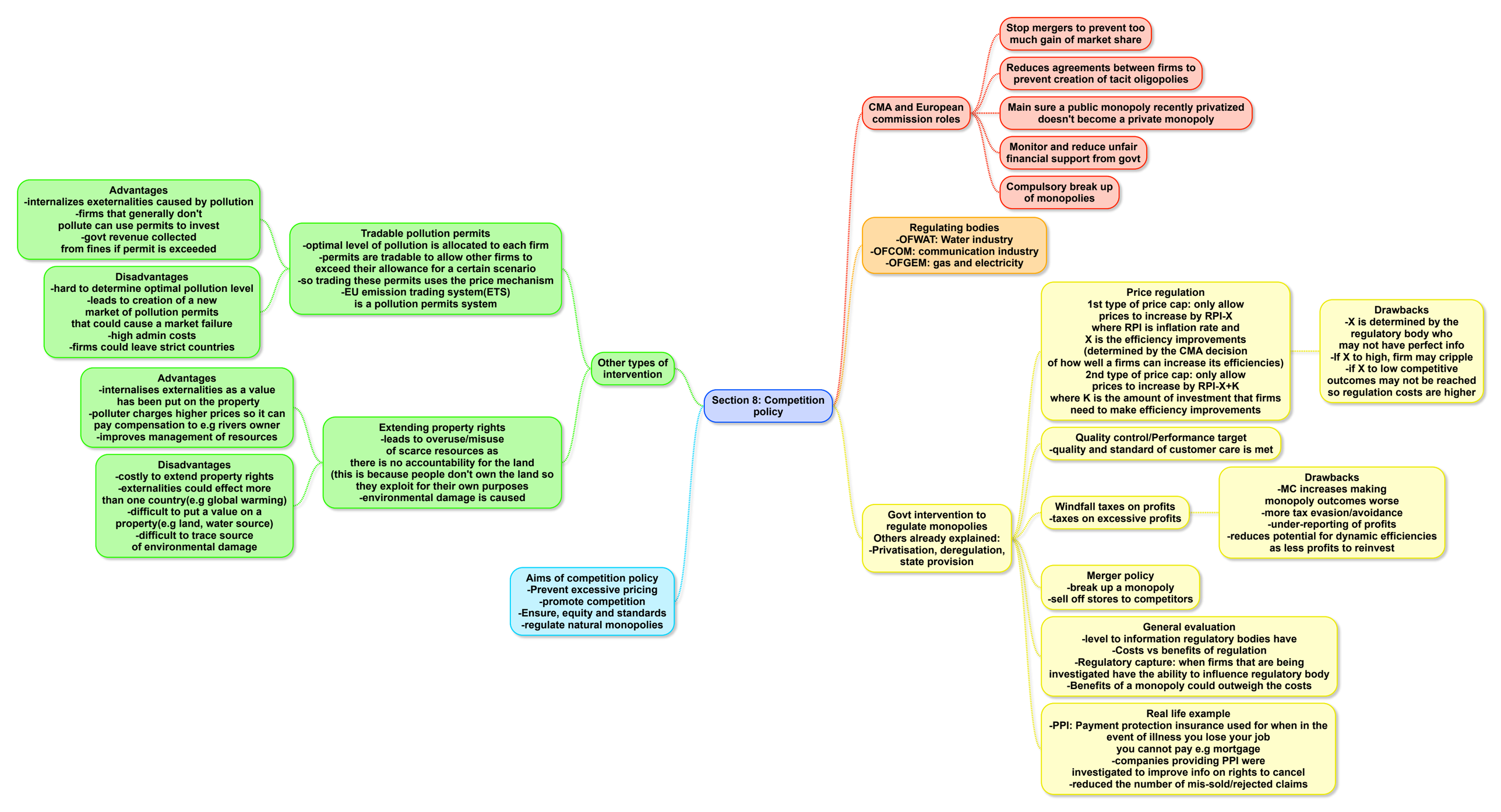
Section 8: Competition policy
CMA and European commission roles
Stop mergers to prevent too much gain of market share
Reduces agreements between firms to prevent creation of tacit oligopolies
Main sure a public monopoly recently privatized doesn't become a private monopoly
Monitor and reduce unfair financial support from govt
Compulsory break up of monopolies
Regulating bodies
-OFWAT: Water industry
-OFCOM: communication industry
-OFGEM: gas and electricity
Govt intervention to regulate monopolies
Others already explained:
-Privatisation, deregulation, state provision
Price regulation
1st type of price cap: only allow prices to increase by RPI-X where RPI is inflation rate and X is the efficiency improvements (determined by the CMA decision of how well a firms can increase its efficiencies)
2nd type of price cap: only allow prices to increase by RPI-X+K where K is the amount of investment that firms need to make efficiency improvements
Drawbacks
-X is determined by the regulatory body who may not have perfect info
-If X to high, firm may cripple
-if X to low competitive outcomes may not be reached so regulation costs are higher
Quality control/Performance target
-quality and standard of customer care is met
Windfall taxes on profits
-taxes on excessive profits
Drawbacks
-MC increases making monopoly outcomes worse
-more tax evasion/avoidance
-under-reporting of profits
-reduces potential for dynamic efficiencies as less profits to reinvest
Merger policy
-break up a monopoly
-sell off stores to competitors
General evaluation
-level to information regulatory bodies have
-Costs vs benefits of regulation
-Regulatory capture: when firms that are being investigated have the ability to influence regulatory body
-Benefits of a monopoly could outweigh the costs
Real life example
-PPI: Payment protection insurance used for when in the event of illness you lose your job you cannot pay e.g mortgage
-companies providing PPI were investigated to improve info on rights to cancel
-reduced the number of mis-sold/rejected claims
Other types of intervention
Tradable pollution permits
-optimal level of pollution is allocated to each firm
-permits are tradable to allow other firms to exceed their allowance for a certain scenario
-so trading these permits uses the price mechanism
-EU emission trading system(ETS) is a pollution permits system
Advantages
-internalizes exeternalities caused by pollution
-firms that generally don't pollute can use permits to invest
-govt revenue collected from fines if permit is exceeded
Disadvantages
-hard to determine optimal pollution level
-leads to creation of a new market of pollution permits that could cause a market failure
-high admin costs
-firms could leave strict countries
Extending property rights
-leads to overuse/misuse of scarce resources as there is no accountability for the land (this is because people don't own the land so they exploit for their own purposes
-environmental damage is caused
Advantages
-internalises externalities as a value has been put on the property
-polluter charges higher prices so it can pay compensation to e.g rivers owner
-improves management of resources
Disadvantages
-costly to extend property rights
-externalities could effect more than one country(e.g global warming)
-difficult to put a value on a property(e.g land, water source)
-difficult to trace source of environmental damage
Aims of competition policy
-Prevent excessive pricing
-promote competition
-Ensure, equity and standards
-regulate natural monopolies