Objectives

1. **Explain** how firms might try to increase their market power.

2. **List** three market practices that the government regulates or bans to protect competition.

3. **Define** deregulation, and list its effects on several industries.
Key Terms

- **predatory pricing**: selling a product below cost for a short period of time to drive competitors out of the market
- **antitrust laws**: laws that encourage competition in the marketplace
- **trust**: an illegal grouping of companies that discourages competition
- **merger**: when two or more companies join to form a single firm
- **deregulation**: the removal of some government controls over a market
Introduction

• When does the government regulate competition?

  – Sometimes the government takes steps to promote competition because markets with more competition have lower prices.
  – The government does this through:
    • Antitrust laws
    • Approving or not approving mergers
    • Deregulation
Market Power

• Monopolies and oligopolies are viewed by many as being bad for the consumer and the economy.

  – Public outrage with powerful trusts in the late 1800s led Congress to pass antitrust regulation.
Government and Competition

- The federal government has policies, known as antitrust laws, to keep firms from gaining too much market power.

  - The Federal Trade Commission and the Department of Justice’s Antitrust Division watches firms to make sure they don’t unfairly force out competitors.
History of Antitrust Policy

• Despite the antitrust laws, companies have used many strategies to gain control over their markets.

– Over the past century, the federal government has acted to promote competition in American industry.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tr>
<td>1901</td>
<td>Theodore Roosevelt becomes President and begins enforcing the 1890 Sherman Antitrust Act, which outlaws mergers and monopolies that restrain trade between states</td>
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<td>1911</td>
<td>Supreme Court breaks up John D. Rockefeller’s Standard Oil Trust</td>
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<td>1950</td>
<td>Celler-Kefauver Act allows government to stop mergers that could hurt competition</td>
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<td>1982</td>
<td>AT&amp;T agrees to break up its local phone service into several companies</td>
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<tr>
<td>2001</td>
<td>Department of Justice settles its lawsuit with Microsoft</td>
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Regulating Microsoft

- The government can regulate companies that try to get around antitrust laws.

- In 1997 the Department of Justice accused Microsoft of using its near-monopoly over the operating system market to try to take control of the browser market.

- A judge ruled against Microsoft. The case was finally settled in 2002. Microsoft could not force computer manufacturers to provide only Microsoft software on new computers.
**Blocking Mergers**

- The government has the power to prevent the rise of monopolies by blocking mergers.

- The government also checks in on past mergers to make sure that they do not lead to unfair market control.
  - The government tries to predict the effects of a merger before approving it.
Corporate Mergers

• Some mergers can benefit consumers.

  – Corporate mergers will lower average prices, which leads to:
    • Lower prices
    • More reliable products and services
    • More efficient industry
Deregulation

• Some government regulation was seen to reduce competition, which led to the deregulation of some industries.
• Over several years, the government deregulated:
  – Airlines
  – Trucking
  – Banking
  – Natural gas
  – Railroad
  – Television broadcasting
Judging Deregulation

• Checkpoint: How does deregulation encourage competition in a market?

  – Usually many new firms entered deregulated industries right away.
  – Deregulation often weeds out weaker players in the long term but it can be hard on workers in the short term.
Deregulating the Airlines

• When airlines were first deregulated, many new airlines entered the market, but some eventually failed.

• Competition increased among the remaining airlines and prices went down. Yet many busy airports had and still have one dominant airline.
The 9/11 attacks caused many people to stop flying and revenues fell as costs for security, insurance, and fuel rose.

– Today the future of the airline industry is still uncertain.
Review

• Now that you have learned about when the government steps in and regulates competition, go back and answer the Chapter Essential Question.
  – How does competition affect your choices?