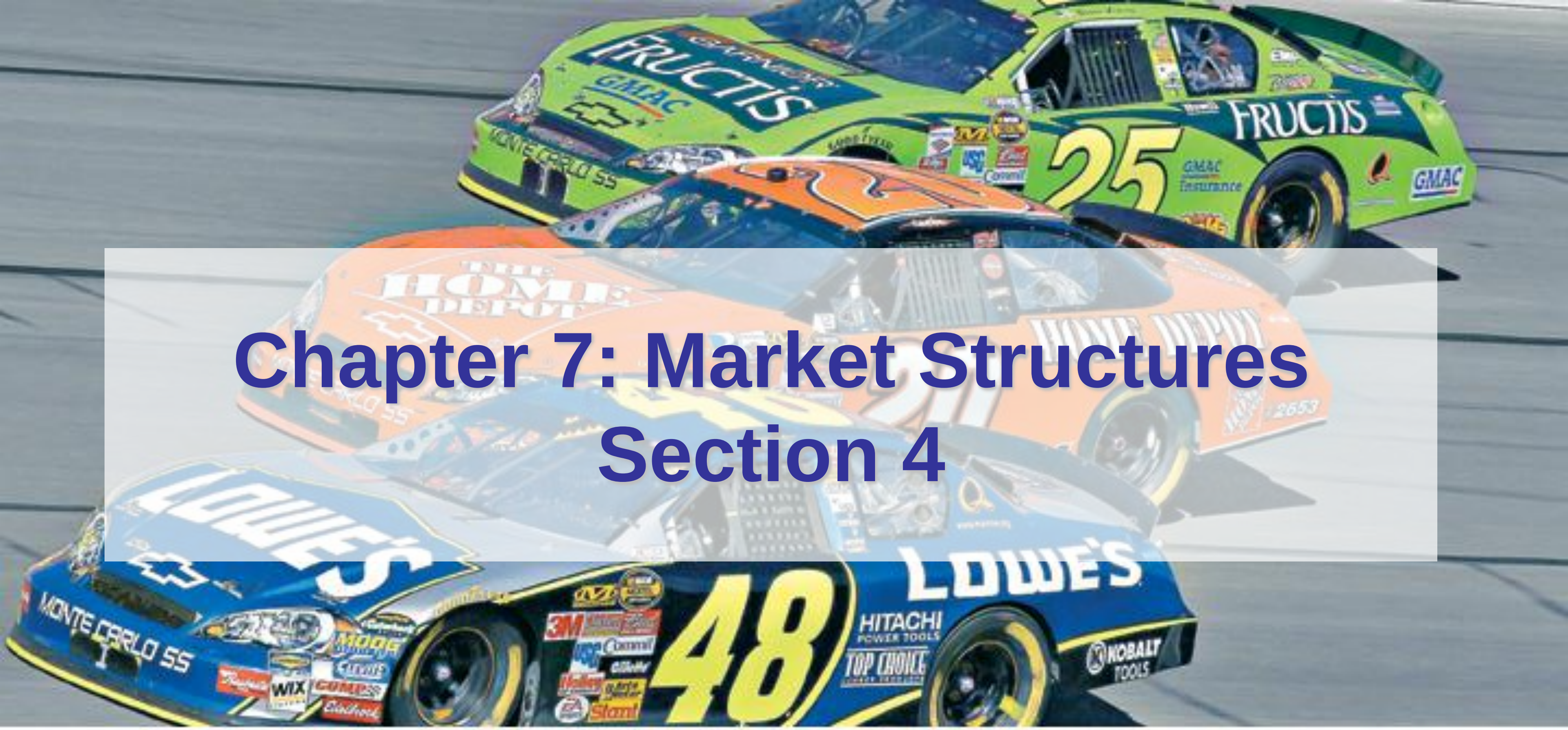
# Chapter 7: Market Structures
# Section 4



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# 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

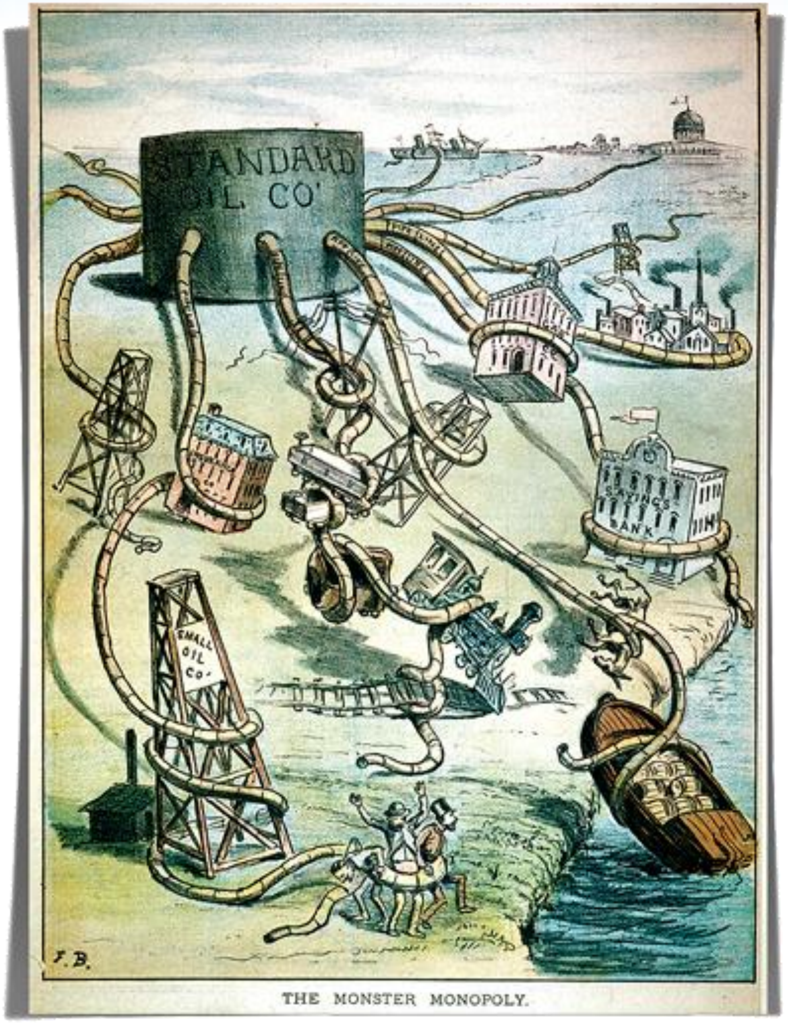
- **predatory pricing**: selling a product below cost for a short period of time to drive competitors out of the market
- **antitrust laws**: laws that encourage competition in the marketplace
- **trust**: an illegal grouping of companies that discourages competition
- **merger**: when two or more companies 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.

**Key Events in Federal Antitrust Policy**

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

# 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.

# Deregulating the Airlines, cont.

- 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?