

Research Highlights in 2018

Reinhold Kesler on Price Parity Clauses

Many consumers nowadays book hotel rooms through online platforms like Booking.com or Expedia. However, a platform's major concern is free-riding, where consumers use the provided search and comparison service, but book through a cheaper channel. In order to prevent this, price parity clauses (PPCs) are often employed, under which a hotel is not allowed to offer better prices or conditions on other sales channels. The theoretical research mostly supports the main theory of harm that PPCs potentially restrict competition among these online travel agents. Numerous competition authorities looked into this in recent years, but came to different conclusions, thereby providing a quasi-experimental setup.

Reinhold Kesler and his co-authors, former MaCCI member Ulrich Laitenberger along with Matthias Hunold and Frank Schlütter, empirically investigate the effect of price parity clauses by using data from the meta-search website KAYAK showing hotel offers for various online sales channels. They compare the hotel behavior in Germany subsequent to the abolition of PPCs imposed by Booking.com with hotel behavior in countries without a regulatory change. The authors find that PPCs influence both the pricing and availability decisions of hotels across online sales channels.

Following the removal of Booking.com's PPC in Germany, hotels publish their offers more often at the online travel agent, and tend to promote the direct online channel more actively. Furthermore, the direct channel among chain hotels has the strictly lowest price more often with no PPC in place. This evidence suggests that price parity clauses restrict price differentiation and the decision on where to put offers. However, the increased use of Booking.com by hotels also suggests that platforms can benefit from relaxing these clauses.

Hunold, Matthias, Reinhold Kesler, Ulrich Laitenberger and Frank Schlütter (2018), Evaluation of Best Price Clauses in Online Hotel Bookings, International Journal of Industrial Organization, 61, 542 – 571.

Volker Nocke and Nicolas Schutz on competition between multi-product firms

Multiproduct firms are endemic and play an important role in the economy; similarly, any markets are dominated by a small number of large firms wielding market power. In contrast to single-product firms, a multiproduct firm must choose not only how aggressive it wants to be in the market place but also how to vary its markups across products within its portfolio. In contrast to monopolistically competitive firms, an oligopolistic multiproduct firm must take self-cannibalization into account, both when setting its markups and when deciding which products to offer. Multiproduct-firm oligopoly therefore gives rise to a number of important questions: What determines the within-firm markup structure, between-firm markup differences, and the industry-wide markup level? What explains firms' scope in oligopoly? Along which dimensions are markups and product offerings distorted by oligopolistic behavior? Due to a series of technical difficulties, these questions have been under-researched in the existing literature.

In this paper, MaCCI-researchers Volker Nocke and Nicolas Schutz develop an aggregative games approach to circumvent the technical difficulties and address these and related questions. They make several contributions. First, they introduce a new class of quasi-linear demand systems that can be derived from a discrete/continuous choice model of consumer demand, and nests standard constant elasticity of substitution and multinomial logit demands as special cases. They use this class of demand systems to analyze oligopolistic price competition between multiproduct firms with arbitrary firm and product heterogeneity. The associated pricing game has two important properties. First, it is aggregative in that a firm's profit depends on rivals' prices only through an industry-level aggregator that is common to all firms. Second, a firm's optimal price vector is such that, for every product in that firm's portfolio, the Lerner index multiplied by a product-level elasticity measure is equal to a firm-level sufficient statistic.

These properties allow Nocke and Schutz to derive simple, yet powerful existence, uniqueness and characterization results. Their approach gives rise to a computationally efficient algorithm, and to a simple decomposition of the welfare distortions in multiproduct-firm oligopoly. Monotone comparative statics results allow Nocke and Schutz to make predictions on how markups and firm scope vary with the competitive environment. In extensions, they adapt their framework to analyze non-linear pricing, quantity competition, and general equilibrium.

Volker Nocke and Nicolas Schutz (2018). Multiproduct-Firm Oligopoly: An Aggregative Games Approach. Econometrica, vol. 86(2), 523-557.

Jens-Uwe Franck and Martin Peitz on Antitrust Damages Law

U.S. Antitrust Law has always allowed buyers of the products of a price-fixing cartel to obtain compensation even when the buyers are not final consumers, but rather downstream firms in the supply chain. Antitrust law has so far failed to appreciate, however, that suppliers to a cartel or to the cartel's customers are in the same economic position as buyers from the cartel insofar as they suffer harm due to reduced output. In particular, component suppliers will often have to lower their prices in reaction to the reduced demand and so will sustain damage due to a cartel-induced underpayment that is economically related to the overcharge that harms the cartel's customers.

MaCCI members Jens-Uwe Franck and Martin Peitz address whether the producers of complements should have a right to get their cartel-induced damage compensated. The analysis is based on the assumption that it is the purpose of antitrust damages actions, first, to deter antitrust infringements, and second, to bring about corrective justice. The authors identify three core considerations the traditional restrictive position on antitrust standing rights is based upon: compensation of suppliers' harm in addition to the cartel-induced overcharge bears a risk of over-deterrence; demonstrating and measuring lost-demand harm is too burdensome and costly; suppliers are only "inferior victims" as they are not directly injured by cartel and as the cartel's customer as "immediate victims" are in place as the "best" available antitrust victims.

Applying economic and legal analysis, Franck and Peitz tackle the conventional wisdom at multiple levels. They demonstrate that the current doctrine substantially underestimates the extent of the damages necessary to create sufficient deterrence. The authors reveal the incoherence of a legal approach in which producers of complements enjoy antitrust standing as they purchase a cartelized product, but are declined standing to sue for compensation when they supply a cartel. The analysis clearly shows that the many policy considerations that go into the decision whether or not to grant standing – including economic factors, such as private information on cartel infringements, incentives to bring suit, and the social costs of litigation – all support the adoption of a broader concept of antitrust standing. While, under U.S. federal law, this would arguably require a change of the case-law of the U.S. Supreme Court, its implementation suggests itself where state law grants standing rights to indirect purchasers and allows cartelists to invoke a passing-on defense. To include suppliers and separate sellers of complements in the classes of potential antitrust plaintiffs amounts to a coherent completion of such a legal framework.

Jens-Uwe Franck and Martin Peitz (2018), Suppliers as Forgotten Cartel Victims, NYU Journal of Law & Business, 15, 17–59

Important News in 2018

Martin Peitz on Digital Data Markets at the European Commission

Upon invitation by DG Comp at the European Commission MaCCI Director Martin Peitz gave a presentation on "Public Policy in Big Data Markets" to a large audience from the European Commission.

Keynote Speech by MaCCI Director Achim Wambach on the Digital Economy

Achim Wambach, ZEW President and a director of MaCCI, gives a keynote speech on "The Digital Economy: Challenges and Prospects" at the policy event "Catching up with Silicon Valley: More is More When it Comes to Digitalisation in Germany" on 16 April 2018 in Stuttgart. The event is jointly organized by ZEW and the Ministry of Economic Affairs, Labour and Housing of the State of Baden-Württemberg and features additional speakers Andreas von Bechtolsheim (Co-founder of Sun Microsystems and Google's first investor), Nicole Hoffmeister-Kraut (Minister of Economic Affairs, Labour and Housing of the State of Baden-Württemberg), and Georg Müller (CEO of MVV Energie AG).

MaCCI Member Volker Nocke at the U.S. Department of Justice (Antitrust Division)

On 7 May, MaCCI senior member Volker Nocke presented his latest research at the U.S. Department of Justice (Antitrust Division) in Washington, D.C. The paper entitled "An Aggregative Games Approach to Merger Analysis in Multiproduct-Firm Oligopoly" – joint work with MaCCI researcher Nicolas Schutz – makes three contributions. First, it shows that the Herfindahl index, which plays an important role in antitrust practice, provides an adequate measure of the welfare distortions introduced by market power, and that the induced change in the (naively-computed) Herfindahl index is a good approximation for the market power effect of a merger. Second, it provides conditions under which a merger raises consumer surplus, and conditions under which a myopic, consumer-surplus-based merger approval policy is dynamically optimal. Third, it studies the aggregate surplus and external effects of a merger.

MaCCI Co-Director Thomas Fetzer Speaking at the 7th China Competition Policy Forum

Co-Director Thomas Fetzer was invited by the Competition Law Center of UIBE and the Expert Advisory Committee of the Anti-monopoly Commission of the State Council of the People's Republic of China to give a presentation on the relationship of Competition Law and IP-Law at the 7th China Competition Policy Forum. The China Competition Policy Forum is the largest and most important competition policy conference in China with more than 300 participants. Keynote speakers included the Vice-Minister of State

Administration for Market Regulation Gan Lin, FTC Chairwoman Maureen Ohlhausen, and MaCCI advisory board member William E Kovacic. These year's Policy Forum not only celebrated the 10th anniversary of the AML but was also the first event after a significant institutional reform merging three competition law authorities to the newly established State Administration for Market Regulation (SAMR).

Upcoming Events in 2019

March 28-29: MaCCI Annual Conference

May 05-06: Eighth Mannheim Energy Conference

May 16-17: Conference on the Economics of Innovation and Patenting

June 06-21: MaCCI Summer Institute

June 27-28: ZEW ICT Conference

November: MaCCI Law and Economics Conference

More Information

For more information on all activities of MaCCI please check www.macci.eu.