# Session 2
# Indicators for Joint SMP

# Economics of Collusion

- Focal point, which is above the competitive benchmarks
  - Convergence of firms strategies towards anti-competitive outcomes

- Stable internally: costs of deviating are higher than benefits
  - Possibility for collusive firms to detect and punish deviation
- Stable externally
  - Destabilisation from non-collusive firms and/or consumers

# Economics of Collusion

- Structural analysis: characteristics for collusion (Motta, 2004; Rey, 2004)
  - High market concentration, high barriers to entry/sunk fixed costs, transparency, mature market technology and lack of technical innovation + homogeneous products
  - Symmetry between firms, links between firms, multi-market contacts + absence of excess capacity
  - Low elasticity of demand, high growth in demand, low demand fluctuations and business cycle, lack of countervailing buyer power
  - Confirmed by
    - Experimental studies in labs (Engel, 2015; Hortsmann, Kraemer and Schnurr, 2016): Probability of collusion is particularly high in duopoly settings
    - Empirical and sectoral studies (Grout and Sonderegger, 2005; OECD, 2015): Characteristics of the telecommunications sector make it prone to collusion
- Behavioural analysis: Markers of collusive behaviours
  - Determine whether firms' behaviours can be better explained by competition or collusion
  - Collusive markers (Harrington, 2008)
    - Sharp increase in price-cost margin
    - Stability in prices and/or market shares
    - Price parallelism or negative correlation between firms' market shares over time