Midterm

- Will go through section on "Price Caps and Related Regimes" (up to section 4e)
- One question on Laffont-Tirole (2 types)
- Vertical restraints
- There will be choice

Ratchet effects

Know general conclusions

Articles

Know economic rationale for resale price maintenance

- minimum price => encourage service by giving extra surplus to the retailers
- rules out going to one retailer, learning about product, going elsewhere and buying it
- minimum price => stores compete on service quality, not prices.

Vertical restraints more broadly:

- exclusive territories
- franchise fees
- tying

Rationales:
- double marginalization
  - RPM and franchise fees can correct when there is known demand.
  - With uncertainty, they will need to share the risk.

Input substitution argument
- you are upstream provider of one input and are a monopolist. Other input is supplied competitively.
- upstream supplier forces downstream firm to buy both inputs from him

(*) Read Ordover-Salop-Saloner

$$\max \ D(p,s)(p - p_w - \varphi(s))$$ downstream firm's profit

FOC:

(s): $D_s(p,s)(p - p_w - \varphi(s)) - \varphi'(s)D(p,s) = 0$

If $p_w \neq c$, then there will be some distortions in terms of choice of service

Mergers
- Know the relative costs benefits of using AIDS, BLP, etc.

Regulation of Natural Monopoly
- First best pricing (if know all private info.)
- Ramsey pricing - second best
- Implementation through price cap
- Incentive regulation
  - informational requirements
  - menu provision
  - ratcheting effects.

Yardstick competition
Regulatory lags
Regulation can be a cheaper way of doing income redistribution