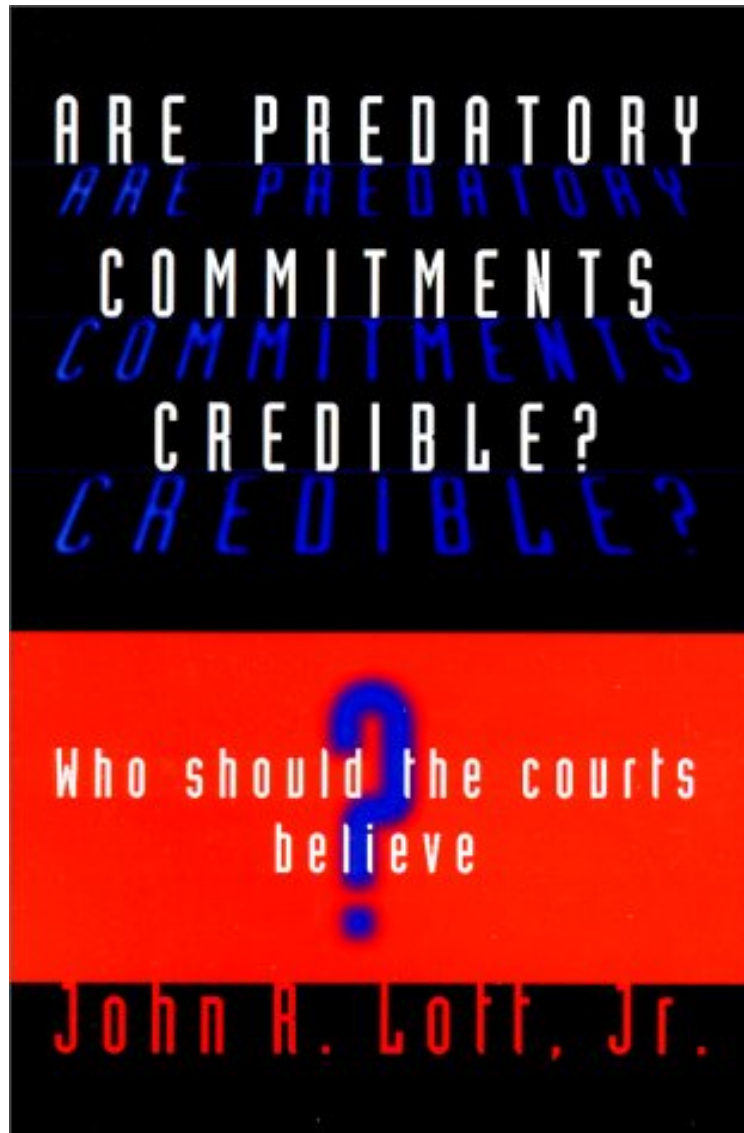


[Download free ebook] Are Predatory Commitments Credible?: Who Should the Courts Believe?

Are Predatory Commitments Credible?: Who Should the Courts Believe?

John R. Jr Lott

*ebooks / Download PDF / *ePub / DOC / audiobook*



[Download](#)

[Read Online](#)

#3779390 in Books 1999-07-01 Original language: English PDF # 1 9.00 x 1.10 x 6.00l, .93 #File Name: 0226493555176 pages | File size: 33.Mb

John R. Jr Lott : Are Predatory Commitments Credible?: Who Should the Courts Believe? before purchasing it in order to gage whether or not it would be worth my time, and all praised Are Predatory Commitments Credible?: Who Should the Courts Believe?:

12 of 12 people found the following review helpful. Terrific bookBy Richard MckenziIf you like logical discussions

that lead to insights you had not anticipated, this is a book you will enjoy. One such insight is that the predatory commitments of government agencies are likely to be more credible than the predatory commitments of private firms. Lott's book is one of those infrequently found books that requires that you sip a glass of wine as you read one chapter each night, and enjoy taking both the book and wine slowly. Very highly recommended. 15 of 15 people found the following review helpful. Provides Much-Needed Empirical Study of Predation Theories By Donald J.

Boudreaux Despite the large number of lawsuits and bureaucratic actions taken against firms alleged to be "predatory pricers," there has been surprisingly -- no, shockingly -- little empirical analysis of predatory-pricing theories. John Lott's book offers what is far and away the most extensive and intensive empirical analysis of the new wave of game-theoretic predation theories that first emerged in the early 1980s. Lott uses ingenious empirical tests (guided by carefully reasoned economics) to see if these new theories hold water. He finds that they don't. This book is a must-read for anyone who wishes today to comment upon the law or economics of predation. 7 of 7 people found the following review helpful. by Eric A. Helland By The Independent Review, Winter 2001 In the 1960s and 1970s, the conventional wisdom in the economics of industrial organization was that monopoly power was pervasive and that a strong antitrust policy was needed to combat such power. A small band of economists and lawyers associated with the University of Chicago attacked the conventional wisdom, knocking out the theoretical underpinnings of antitrust law in general and the theory of predatory pricing in particular. The Chicago School analysts showed that, in theory, predatory pricing was unlikely to work because it required the predator to lower prices on an increased quantity of product, thereby taking large losses in the short run. Moreover, even if the competitor were driven out of business, the higher long-run price needed to recoup the short-run loss would encourage entry, and in the final accounting the predation would prove unprofitable. Empirical analysis backed up the Chicago School theory. Indeed, economists could not adduce a single clear-cut case of actual predatory pricing--hence, the title of the survey article by Roland H. Koller II, "The Myth of Predatory Pricing" (*Antitrust Law and Economics Review* 4 [summer 1971]: 105-23). As the Chicago School ideas triumphed in Washington, they came under attack in the academy. One source of attack was the new industrial organization (NIO), based on game theory, which was revolutionizing all areas of economics. More recently, the analysis of "path dependence" has formed a second prong of attack. The game theorists created a host of models showing that with certain assumptions about information, strategy, and the structure of the game, a threat to use predatory pricing could, in theory, be profitable. John Lott's book *Are Predatory Commitments Credible? Who Should the Courts Believe?* is the second major counterattack from the Chicago School. If firms accused of predatory pricing do not seem to differ systematically from the control group, is any firm capable of following a predatory-pricing strategy? In effect, could any organization commit to not maximizing profits, if only for a limited period of time? Lott's answer is that one group of firms can make such a commitment: publicly owned firms. The basic idea comes from Niskanen's model (William Niskanen, *Bureaucracy and Representative Government* [Chicago: Aldine Atherton, 1971]): publicly owned firms maximize size rather than profit. Lott gives several examples, but none hits closer to home than the public university, which must maintain enrollment in order to maintain the size of the faculty and therefore sets prices considerably below costs. Lott's second type of evidence that publicly owned firms practice price predation is the fact that dumping cases--the international version of predatory-pricing complaints--have been filed under the General Agreement on Tariffs and Trade more frequently against firms from communist countries than against firms from noncommunist countries. Lott shows, therefore, that the NIO theory of predatory pricing makes sound predictions (hawks practice predatory pricing more than doves), but it has limited application to the private-enterprise system, to which its advocates intended it to apply. Lott's third argument supplements the theory of predatory pricing. He extends Jack Hirshleifer's observation that inventors of public goods can internalize at least some of the value of their invention by taking long or short positions in assets whose price will change after the discovery is made public (see Jack Hirshleifer, "The Private and Social Value of Information and the Reward to Inventive Activity," *American Economic Review* 61 [1971]: 561-74). Lott extends this idea by arguing that an entrant facing an incumbent with a reputation for toughness should take a short position in the incumbent's stock, enter, and reap trading profits. In effect, the incumbent firm with a reputation for toughness finances the entry of its own competitors. The entrant can also make profits by exiting. If the entrant enters and finds that it cannot withstand the attack of the hawk, it can take a long position in the incumbent's stock, exit, and collect the trading profits. Either way, trading profits increase the incentive to enter because whether or not entry ultimately succeeds, trading profits allow the entrant to make a profit. As Lott puts it, "the more successfully a predator deters entry, the greater the return that trading profits create toward producing new entry. Creating a reputation to predate can thus be self-defeating" (p. 115). Lott's trading-profits theory is alone worth the price of the book--a credit to Lott and an indictment of the NIO. One of the basic insights of economics is that well-established markets threaten rents. Lott's simple application of this wisdom ought to change the way economists think about antitrust cases and the way they are litigated both as private and as public cases. The notion that trading profits can mitigate or eliminate the private damage from predatory pricing should certainly give antitrust experts cause to worry about the efficiency of treble damages. I await the day when the defendant in an antitrust case will respond, "If my actions were predatory, why didn't the plaintiff just buy my stock short and use the profits to stay in the market."

Predatory pricing has long been a contentious issue among lawmakers and economists. Legal actions are continually brought against companies. But the question remains: how likely are firms to cut prices in order to drive rivals out of business? Predatory firms risk having to keep prices below cost for such an extended period that it would become cost-prohibitive. Recently, economists have turned to game theory to examine circumstances under which predatory tactics could be profitable. John R. Lott, Jr. provides long-awaited empirical analysis in this book. By examining firms accused of or convicted of predation over a thirty-year period of time, he shows that these firms are not organized as the game-theoretic or other models of predation would predict. In contrast, what evidence exists for predation suggests that government enterprises are more of a threat. Lott presents crucial new data and analysis, attacking an issue of major legal and economic importance. This impressive work will be of great interest to economists, legal scholars, and antitrust policy makers.

...in *Are Predatory Commitments Credible?*, John R. Lott Jr. masterfully picks apart the game theorists' argument. --
The Wall Street Journal, David R. Henderson