

Aims, Regulatory Environment and Economics of Competition

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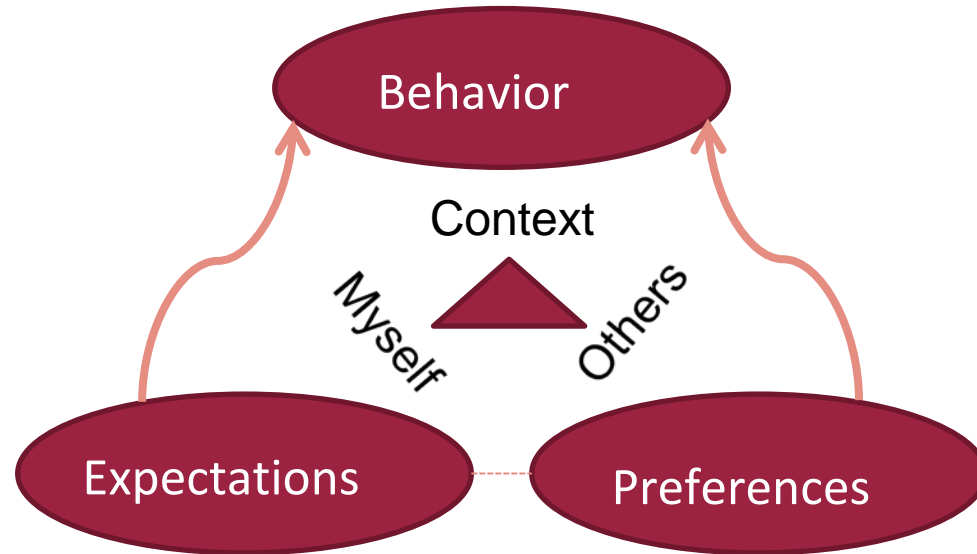
Understanding decisions



Quelle:
<http://www.reachingthefinishline.com/blog/7/19/2016/3-cognitive-biases-that-affect-our-decisions-every-day>

A simple conceptual model

Decision makers
(consumers, firms)
are not necessarily:
selfish
rational
(= homo oeconomicus)



Source: IHS



Consequences

- If people's behavior does not follow the basic homo oeconomicus assumptions and institutions/rules/norms in our society are based on these (wrong!) assumptions, we might face perverse incentives.
- Institutions might be designed sub-optimally.
- Competition law and enforcement are a set of institutions/rules/norms.
- Behavior of relevant decision makers is still systematic; evidence-based social engineering.



A few examples

- Consumer: Simple mistakes such as myopia, self-control problems (concerns aftermarkets or long-term contracts)
- Consumer: Complexity in contract menu choices (comparisons between different contracts; for instance decoy effects; framing matters)
- Cartels: Might be more stable than standard theory suggests (because of conditional cooperation among firm representatives)



Instruments: social engineering

1. Correct incentives

2. Helping with commitments

3. Nudging (choice architecture)



Commitment problems



Quelle: <https://www.flickr.com/photos/23227570@N07/2224323309>



Quelle: <https://admin.mashable.com/wp-content/uploads/2011/05/Amazing-Alarm-Clock1.jpg>



Commitment problems

I.e.: Over-estimating one's own self-control (naïveté)

- Credit card debt repayment
- Long-term contracts (paying not to go to the gym)
- Add-on pricing
- Endowment effect and trial periods
-



Nudging

I.e.: Constructing choice
architecture; can be a partial
substitute for regulation
(often cheaper and less invasive)



Source: www.fehradvice.com



Nudging

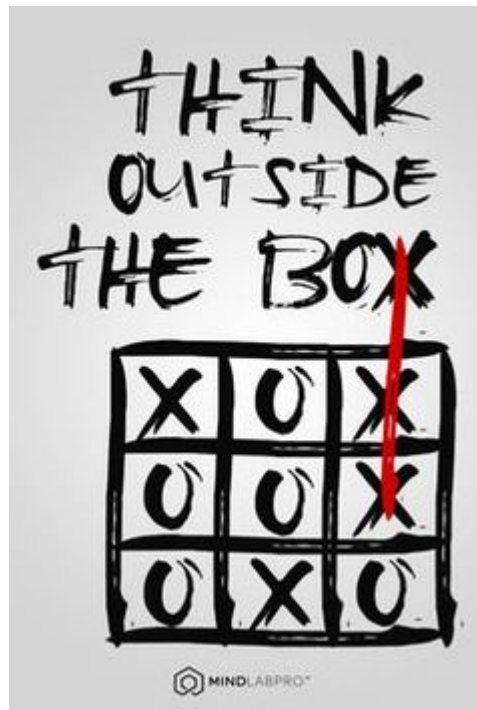
Examples for nudges:

- Framing
- Defaults, anchoring
- Order effects
- Access and usability (information)
- Reminders



Source: www.fehradvice.com

Conclusion



Quelle: www.rp-online.de

Taking evidence of *actual* behavior into account
is necessary for
optimally designing competition policy!