

Market power and market definition

Market definition is only an intermediary objective

Modern econometric tools allow in some cases to assess market power directly: if so, defining the market is not needed; if not, two steps in the analysis:

1. Market definition (product and geographic)

2. Market power assessment

1. Market definition

Product Market: the set of products “substitutes enough” to each other.

- a) Demand substitutability and supply substitutability
- b) How to find this set?

SSNIP (Small Significant Non-transitory Increase in Prices) test: could a hypothetical monopolist selling products X profitably raise prices by 5-10%?

If yes, X is the product market

If no, apply SSNIP test again with X and Y, etc...

Market definition, II

How to implement this ‘thought experiment’?

Own-price elasticities, cross-price elasticities, price correlation tests

NO: Price differences and product characteristics

A problem with this test: raise prices relative to what?

Merger cases: current prices

Art.82 cases: competitive price? (more difficult to check; also, cellophane fallacy)

Geographic definition: SSNIP test, transport costs

2. Assessment of market power

The traditional approach

Central role of market shares

Which thresholds for market shares?

Measurement and relative strengths (reserves, capacities, persistence of shares)

Ease and likelihood of entry

Buyers' power

Econometric techniques

Estimation of residual demand elasticity

Logit models