Economics of European Integration

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Problem Set 7

Exercise 1: Economics of anti-competitive behavior

The BE-COMP diagram shows the impact of liberalization on consumer surplus, firm- and market sizes.

a. Explain the three panels of the BE-COMP diagram. What happens in case of liberalization?

b. What happens under *perfect* collusion? Why is this inefficient? Why is this outcome often not stable?

c. What is *partial* collusion?

d. Show the welfare impact of cartels.

e. Show the welfare impact of a merger.

Exercise 2: Global Competition Policy

a. What are the reasons/motivations for firms to merge? What about cross-country mergers?

b. What are the major aspects national competition authorities evaluate to decide whether a requested merger can occur?

c. Think about within-country mergers, why do these concern international markets as well? How does this matter for competition authorities in deciding upon a requested merger?

d. Consider the possibility of "extra-territorial powers". How does that affect the probability of a merger of two firms in country *a* when (i) country *a* has an international cooperative agreement with country *b* and both have extra-territorial powers or (ii) a global competition authority decides on the merger or (iii) neither a global competition authority exists nor a bilateral agreement between *a* and *b* and country *b* has no extra-territorial powers.

e. Given your solutions from exercise d, how can you explain why no global authority has been established yet.