Perfect competition is the exception rather than the rule in the real world. Because there are so few perfectly competitive markets in the economy, most firms do not produce efficiently — that is, at minimum average total cost. Should something be done about this? What about the relative prices that are formed in markets dominated by monopoly and oligopoly? These questions are explored in this chapter. A variety of policy options are discussed. The easiest policy is to do nothing — the \textit{laissez-faire} approach. A laissez-faire approach makes sense if the markets being considered for regulation are \textit{contestable markets} where at least the threat of competition exists, or if there is \textit{countervailing power}. In other cases, \textit{regulation} is more appropriate, especially with natural monopoly. Price choices are left to the regulatory agency, where \textit{“fair” price} and \textit{marginal cost pricing} are alternatives. Other options for dealing with monopoly and oligopoly power include \textit{deregulation, nationalization}, and \textit{antitrust policy}. Deregulation of a previously regulated industry is carried out with the hope that competition will thrive and place limits on monopoly power. Nationalization occurs when the government takes over a firm or industry and then controls price and production decisions. Antitrust policy involves enacting and enforcing laws that affect the structure and behavior of firms. Some of these policies are more appropriate than others for particular situations, and each of these policies has its advantages and disadvantages.

\textbf{After studying this chapter, you should be able to:}

\begin{itemize}
  \item List and explain the options available for coping with monopoly and oligopoly.
  \item Compare graphically the \textit{“fair” price} and \textit{marginal cost pricing} approaches to regulation.
  \item Explain how \textit{deregulation} can lead to lower prices.
  \item Discuss the feasibility of \textit{nationalizing} an industry.
  \item Distinguish between \textit{contestable} and \textit{noncontestable} markets.
  \item Present examples of \textit{countervailing power} in industries.
  \item Define \textit{creative destruction}.
  \item Provide an overview of \textit{antitrust} legislation and its enforcement in the United States.
\end{itemize}

\textbf{Concept Check} — See how you do on these multiple-choice questions.

This question asks you to consider whether monopoly should ever be allowed to exist.

1. The \textit{rule of reason criterion} states that
   \begin{itemize}
     \item[a.] market power should always be limited
     \item[b.] only public utilities should be allowed to be monopolies
     \item[c.] monopolies are acceptable if they don’t abuse their market power
     \item[d.] the bigger the firm, the more monopolistic is its behavior
     \item[e.] a monopoly convicted of an antitrust violation usually wins on a reasonable appeal
   \end{itemize}
What does the French phrase “laissez-faire” mean to economists?

2. If the government decides to pursue a policy of laissez-faire with respect to monopoly and oligopoly, it will
   a. regulate the firms
   b. nationalize the firms
   c. apply antitrust policy
   d. leave the firms alone
   e. encourage concentration of the industry

In cases of natural monopoly, the average total cost curve is decreasing over a wide range of output. If average
total cost is decreasing, then marginal cost must be less than average total cost. What are the implications for
marginal cost pricing?

3. One problem with applying marginal cost pricing to regulate a monopolist is that the
   a. monopolist will earn profits that are too high
   b. monopolist may incur a loss
   c. price may be above average total cost
   d. monopolist’s shareholders begin selling their holdings
   e. price will also equal average total cost

Regulation in the United States has typically imposed a set of controls on an industry that are enforced by a
commission. Why is deregulation enacted?

4. The purpose of deregulation is to
   a. guarantee competitive pricing
   b. abide by court decisions regarding government regulation
   c. provide a way for monopolies to avoid having to abide by court decisions to regulate
   d. provide a way for monopolies to avoid having to abide by regulatory commission decisions
   e. dismantle the regulatory controls that have been imposed on a regulated industry

You need to learn the names and dates of the various antitrust acts.

5. The first piece of antitrust legislation in the United States was the __________________ passed by
   Congress in ____________.
   a. Sherman Act, 1914
   b. Clayton Act, 1914
   c. Sherman Act, 1890
   d. Celler-Kefauver Act, 1951
   e. Interstate Commerce Commission Act, 1881

Am I on the Right Track?

Your answers to the questions above should be c, d, b, e, and c. A virtual grab bag of options exists for dealing
with monopoly and oligopoly markets. One of these options is to do nothing — the laissez-faire approach. The
problem is to determine which policy is most appropriate given the economic circumstances. The theory of
production along with the theories of firm behavior we have studied help guide the choice of policy regarding
concentration of market power in monopoly and oligopoly markets.
Key Terms Quiz — Match the terms on the left with the definitions in the column on the right.

1. laissez-faire  _____  a. pricing and output decisions are made by a regulatory agency
2. countervailing power  _____  b. price is regulated equal to marginal cost
3. contestable market  _____  c. laws to foster competition that prohibit the exercise of excessive
   market power by monopolies
4. creative destruction  _____  d. market power of one economic bloc is checked by the power of a
   competing bloc
5. regulation  _____  e. government ownership of a firm or industry
6. patent  _____  f. size alone is enough to indicate a violation of antitrust law
7. rule of reason criterion  _____  g. market where the threat of entry exists
8. marginal cost pricing  _____  h. government policy of nonintervention in the market
9. per se criterion  _____  i. firm’s size alone is insufficient to indicate a violation of antitrust
   laws
10. deregulation  _____  j. monopoly right granted for 20 years to market a product or
    process
11. antitrust policy  _____  k. competition that exists between highly concentrated industries
12. nationalization  _____  l. the process of converting a regulated industry into an
    unregulated industry

Graphing Tutorial

This chapter uses the graph depicting a natural monopoly to show how a natural monopoly can be regulated by
either the “fair” price method or the marginal cost pricing policy. Each of these alternatives has its own
advantages and drawbacks. Suppose the Bumpke Waste Removal Company has a natural monopoly on hauling
garbage in Springfield. Recall from Chapters 10 and 11 what this means. Given the size of the market, only
one company can be supported to haul trash at a low average total cost. The average total cost curve is
downward sloping in the range of output being considered. The downward slope of the average total cost
reflects the high fixed costs that are associated with a natural monopoly. As output increases, average total
costs continue to fall because declining average fixed costs pull them down. Because average total cost is
decreasing, marginal cost is less than average total cost in this range of output. A natural monopoly is shown
below with demand and marginal revenue curves.
Since Bumpke is a price-maker with no regulation, the firm will set output at 200 tons per week, where marginal revenue is equal to marginal cost, and charge $8 per ton from the demand curve. Suppose the Springfield community decides this is unacceptable and chooses to regulate the fee charged by Bumpke for waste haulage. One choice is to set a “fair” price where the demand curve crosses the average total cost curve, The price charged would be $4, and 275 tons per week would be hauled with this form of regulation. Bumpke receives a normal profit, just as it would under perfect competition. This solution is far from perfect, however. As discussed in the text, the problem becomes, “Who regulates the natural monopoly’s average total cost?”

The other alternative is for Springfield to impose marginal cost pricing on Bumpke. The demand curve crosses the marginal cost curve at a price equal to $2 and an output of 325. Springfield residents benefit because more trash is hauled at a lower cost. And, society is willing the pay $2 for hauling the 325th ton, exactly the cost of the resources used to haul that last ton. The P = MC rule yields the socially optimum use of resources. However, there is clearly a problem for Bumpke because the $2 price is below the $3.90 average total cost of hauling the 325th ton. In order for this pricing rule to work, Bumpke must be subsidized an amount equal to $1.90 per ton on 325 tons, or $617.50. The subsidy must be paid from tax revenues.

**Graphing Pitfalls**

Finding the “fair” price and the marginal cost pricing prices and levels of output is easy in the graph of a natural monopoly if you simply follow the demand curve downward to the point where it crosses the average total cost, which gives the “fair” price and output, then further down to where the demand curve crosses the marginal cost curve, which gives the marginal cost pricing price and output. Don’t make the mistake of stopping where the demand curve intersects the average total cost curve and reading the marginal cost pricing price and output from this same quantity level as illustrated below. The marginal cost pricing level of output will always be larger than the “fair” price level of output for a natural monopoly.

The marginal cost pricing price level should be $2 per ton, not the 2.10 per ton shown in the graph above. Moreover, the output level should be 325, not 275 as shown above! Marginal cost pricing yields a larger output level than does “fair” pricing.
True-False Questions — If a statement is false, explain why.

1. The price is higher and the output lower for a natural monopoly regulated according to marginal-cost pricing than for a firm regulated to a “fair” price. (T/F)

2. Amtrak is an example of a nationalized monopoly that would have collapsed if left alone. (T/F)

3. A fair price for a natural monopolist would be $P = ATC$. (T/F)

4. Monitoring costs of production is a difficult task for regulatory commissions. (T/F)

5. The United States practices a laissez-faire approach to the problems of monopoly and oligopoly pricing. (T/F)

6. If the threat of entry to an oligopoly or monopoly market is enough to cause prices to be reasonably low, then the market is said to be contestable. (T/F)

7. Antitrust legislation prohibits the excessive exercise of market power by monopolies and oligopolies. (T/F)

8. Careful regulation of monopoly power becomes more necessary in an economy characterized by widespread creative destruction. (T/F)

9. A natural monopolist regulated to set price equal to marginal cost can operate without a subsidy. (T/F)

10. Regulatory commissioners typically oppose the interests of regulated firms. (T/F)

11. The Sherman Act failed to clearly define what constituted “an attempt to monopolize” and “restraint of trade,” which made the act difficult to enforce. (T/F)

12. By implementing an extensive regulatory apparatus in 1978, Alfred Kahn, then head of the CAB, was able to create lower airfares. (T/F)

13. The Clayton Act closed loopholes in the Sherman Act by incorporating four specific anticompetitive activities. (T/F)
14. A nationalized monopoly should be expected to be managed very differently from a private monopoly. (T/F)

15. The rule of reason holds that if a firm is large relative to the total market, then it has excessive monopoly power. (T/F)

Multiple-Choice Questions

1. Some economists believe that, if perfect competition ever existed, it is no longer obtainable, because
   a. modern technology dictates that firms be very large in order to realize economies of scale
   b. concentration ratios are low
   c. of government interference with prices
   d. regulatory commissions find it easier to regulate a few big firms
   e. production is inefficient when \( P = MC \)

2. Deregulation has the most beneficial results in industries where
   a. barriers to entry are significant
   b. fixed costs are very high
   c. markets are not contestable
   d. potential profits are rather low
   e. entry is relatively easy

3. One reason that natural monopolies are regulated rather than broken up is that
   a. the market is not large enough to support two firms profitably
   b. natural monopolies usually operate in contestable markets
   c. countervailing power typically exists in natural monopoly situations
   d. it is difficult for antitrust lawyers to prosecute natural monopolists
   e. creative destruction ultimately limits the power of natural monopolist

4. “Fair” price regulation leaves the regulated firm with
   a. economic profit
   b. a loss that is offset by a government subsidy
   c. a loss in the short run but substantial long-run profits
   d. prices set equal to marginal costs
   e. a normal profit

5. The reason that marginal cost pricing is difficult to implement in the regulation of natural monopolies like utility companies is that
   a. marginal cost is below average total cost for a natural monopoly
   b. consumers will not pay for the resources used to produce the last unit of output
   c. marginal cost pricing would allow the monopoly economic profits
   d. such regulation might promote entry into the industry
   e. no one can figure out exactly what the marginal cost is
6. The laissez-faire approach to dealing with monopoly and oligopoly pricing behavior might be appropriate in cases where
   a. nationalization has failed
   b. firms block attempts to regulate them via court injunctions
   c. markets are contestable
   d. the firm’s costs are difficult to estimate
   e. antitrust violations are difficult to prove

7. The Interstate Commerce Commission’s decision to regulate trucking, as well as the railroad industry, was made to
   a. serve the interest of the trucking industry
   b. serve the public interest
   c. keep trucking prices from increasing
   d. serve the interests of the railroad industry
   e. hasten the decline of the railroad industry

8. The existence of countervailing power in the United States economy suggests that the economy’s markets are
   a. highly competitive
   b. largely monopolistic and must be regulated
   c. polarized into power blocs that limit each other’s market power
   d. controlled by labor unions
   e. highly regulated

9. A problem that nationalized firms have faced in the past is that
   a. they are inherently less efficient than private firms
   b. they have tended to be firms that have operated at a loss over a long period of time
   c. the previous private owners have not been adequately compensated
   d. government bureaucrats make poor managers
   e. they suffer from a lack of technical expertise

10. One problem with the theory of contestable markets is that
    a. even when markets are contestable, profits are excessive
    b. entry into an oligopoly market would dilute profits
    c. it depends on the existence of countervailing power
    d. laissez-faire permits economic profit to persist in all market structures
    e. it is difficult to determine what constitutes a credible threat of entry

11. The theory of countervailing power states that oligopoly power is restrained because
    a. competition among economic power blocs forces prices down
    b. the threat of entry into the industry is sufficient to keep prices down
    c. firms can quickly divert resources from one line of production to another
    d. the government can use nationalized firms to check the power of oligopoly
    e. firms will self-regulate in order to prevent government regulation

12. A contestable market is a highly concentrated market in which
    a. a balanced oligopoly ensures that prices are maintained at competitive levels
    b. a monopoly is imminent due to the intense competition among oligopolists
    c. prices are moderated by the potential threat of firms entering the market
    d. firms contest each other in the same way that firms compete
    e. power blocs exist that check the exercise of market power
13. The Clayton Act strengthened the government’s ability to combat anticompetitive behavior by
   a. making conspiracies to restrain trade illegal
   b. creating four specific categories of anticompetitive behavior
   c. permitting interlocking directorships
   d. allowing firms to buy voting stock in competing firms
   e. introducing regulations for natural monopolies

14. All of the following are examples of specific types of anti-competitive practices outlawed by the Clayton
    Act except
    a. price discrimination among purchasers
    b. exclusive contracts that limit buyers to a specific seller
    c. acquisition by one firm of the voting stock of a competing firm
    d. interlocking directorships
    e. conspiracies to restrain trade

15. The Federal Trade Commission uses all of the following methods to combat unfair trade practices except
    a. investigating unfair trade practices
    b. nationalizing monopolies
    c. holding public hearings
    d. initiating complaints
    e. issuing cease and desist orders

16. The Robinson-Patman Act is aimed at preventing ________ while the Celler-Kefauver Act was
    intended to prevent ________.
    a. disguised merger through purchase of physical assets; selective discount deals
    b. selective discount deals; disguised merger through purchase of physical assets
    c. selective discount deals; disguised merger through stock purchases
    d. disguised merger through stock purchases; selective discount deals
    e. disguised merger through stock purchases; disguised merger through purchase of physical assets

17. The courts’ rule of reason criterion, as it is applied to antitrust, maintains that
    a. because monopolists are reasonable people, profit margins are constrained
    b. all monopolies unreasonably restrain trade
    c. through a process of reason monopoly can be restrained
    d. monopoly is illegal only if the firm unreasonably restrains trade
    e. it is reasonable to presume that competition is preferred

18. In 1945, the Supreme Court established the per se doctrine, which declares that
    a. a monopoly is acceptable if no other firm has attempted entry into the industry
    b. a firm’s size is insufficient for a court to rule against it in antitrust cases
    c. size alone is enough for a court to rule against a firm in an antitrust case
    d. a court must find evidence of wrongdoing to declare a monopoly illegal
    e. if the monopolist can prove that the market is contestable, per se, it is acceptable

19. Supreme Court decisions in antitrust cases since the 1970s have
    a. continued to use the per se criterion
    b. have evolved to embody both the rule of reason and the per se criterion
    c. have shifted from per se to the rule of reason
    d. have been aggressive in breaking up monopolies
    e. have succeeded in ending monopoly practice in the United States
20. Critics of conglomerate mergers argue that while they involve firms from different industries, they
   a. may influence the competitive nature of the economy as a whole
   b. have impeded the creation of economies of scale
   c. cause an increase in the Herfindahl-Hirschman index
   d. cause a decrease in the Herfindahl-Hirschman index
   e. violate antitrust laws

The following questions relate to the interdisciplinary, theoretical, historical, and applied perspectives in the text.

21. Kenneth Boulding challenges the idea that regulation necessarily reduces freedom by arguing that
   a. regulation is essential for keeping those who enforce regulations employed
   b. regulation is a modern phenomenon and the appearance that it reduces freedom is the result of early
      inept attempts at regulation
   c. as income and the range of activities that people undertake both increase, conflicts necessarily emerge
      without regulation
   d. regulation was unnecessary until automobile and air travel became commonplace
   e. most regulations that are introduced are inherently unenforceable

22. Which of the following is not a mechanism used by Wal-Mart to reduce costs in order to charge
    consumers lower prices for their retail products?
    a. using countervailing power against the oligopoly suppliers of products they sell
    b. hiring non-union labor
    c. accepting operating losses rather than profits on a routine basis
    d. practicing outsourcing
    e. offering minimal health and other benefits to employees

23. The first industry to be closely regulated by the federal government was the
    a. ocean-shipping industry
    b. steel industry
    c. liquor industry
    d. pharmaceutical industry
    e. railroad industry

24. “Direct-to-consumer-drug-marketing in TV commercials targeting potential patient customers is
    questionable based on the grounds of
    a. viewer interest, hence profitability
    b. the enormous cost of television advertising
    c. the length of these commercials which address many details
    d. the Fair Packaging and Labeling Act of 1966
    e. consumer distrust of television advertising

25. The most serious problem associated with the spread of fraudulent schemes via the Internet is that
    a. they are impossible for the FTC to prosecute
    b. if the fraud continues, the Internet will fail to realize its full potential for promoting commerce
    c. people who are defrauded in scams are too ashamed to come forward with complaints
    d. hackers are usually able to destroy any evidence of wrongdoing
    e. the courts have been lenient toward offenders so they continue attempting new scams

Fill in the Blanks

1. By setting \( P = MC \), a regulatory agency achieves the socially ________________ of resources.
2. A _______________ is an exclusive grant by government to _____________ a product or process for __________ years.

3. The Clayton Act of 1914 made it illegal for firms to _________________, _________________, _________________, and _________________.

4. The __________________ holds that a firm’s size alone is insufficient evidence for a court to rule against it in an antitrust suit.

5. The __________________ holds that a firm’s size is sufficient evidence for a court to rule against it in an antitrust suit.

Discussion Questions

1. Do you agree that monopoly and oligopoly are inevitable outcomes of modern technology? Why or why not?

2. Why do regulatory commissions set fair prices for public utilities?

3. Compare the $P = ATC$ pricing with the $P = MC$ pricing for a regulated natural monopoly.

4. Discuss the various arguments in favor of a laissez-faire approach to monopoly.

5. Did antitrust legislation have much effect on the exercise of monopoly power in the United States prior to 1914?

Everyday Applications

How would you feel if you had only one choice for long-distance telephone service? Until fairly recently, that’s the way it was. AT&T (Ma Bell) was the only option. Ask your parents what has happened to their long-distance bills since the introduction of competition to the market for long-distance telephone service. Do they think deregulation has led to a better situation for consumers?
Economics Online

Do you feel that you’ve been the victim of unfair trade practices? Do you want to get even?

The information you need to get started with the process of redress may be found in the Web page for the Federal Trade Commission. The FTC Web page states that the FTC is “working for consumer protection and a competitive marketplace.” Let’s hope so. Visit the site (http://www.ftc.gov/).

Answers to Questions

Key Terms Quiz

a. 5  f. 9  k. 4
b. 8  g. 3  l. 10
c. 11  h. 1
d. 2  i. 7
e. 12  j. 6

True-False Questions

1. False. The price is higher and the output lower for a natural monopoly that is regulated according to a “fair” price.
2. True
3. True
4. True
5. False. The United States has practiced many approaches to dealing with monopoly and oligopoly market power including laissez-faire, regulation, nationalization, and antitrust.
6. True
7. True
8. False. Regulation is less necessary given the phenomenon of creative destruction.
9. False. A subsidy will be needed to compensate the natural monopolist for the loss incurred. Marginal cost is less than average total cost at the output level that corresponds to the intersection of demand and marginal cost.
10. False. Frequently, those who regulate a firm are drawn from the industry itself and share its concerns.
11. True
12. False. Kahn spearheaded the drive to deregulate the air travel industry, leading to lower fares.
13. True
14. False. There seems to be little difference between the efficiency performance of nationalized and private firms.
15. False. Size alone is not enough for the courts to rule against a firm in antitrust suits under the rule of reason.

Multiple-Choice Questions

1. a  6. c  11. a  16. b  21. c
2. e  7. d  12. c  17. d  22. c
3. a  8. c  13. b  18. c  23. e
5. a  10. e  15. c  20. a  25. b
Fill in the Blanks

1. optimum use
2. patent; market; 20
3. price discriminate; use exclusive contracts; buy out competitors’ voting stock; sit on the boards of directors of competing firms
4. rule of reason
5. per se criterion

Discussion Questions

1. To the extent that modern technology favors those firms that can achieve economies of scale, then monopoly and oligopoly are outcomes of modern technology. This is not to say that small firms cannot coexist alongside large firms in particular industries. Recall the godfather model of oligopoly.

2. Public utilities are engaged in supplying households with the basics — water, gas, and electricity. These firms are characterized by their high fixed costs of production and are natural monopolies. The markets for their services are too small to support more than one firm at output levels high enough to allow the firms to realize low average total costs of production. Therefore, it makes sense to have one firm supply the water, gas, or electricity and to make certain that a fair price is charged.

3. \( P = ATC \) regulation occurs where the demand curve intersects the average total cost curve. \( P = MC \) regulation occurs where the demand curve intersects the marginal cost curve. Output is larger under a \( P = MC \) policy than a \( P = ATC \) policy. But, in the \( P = MC \) regulation case, the price is less than average total cost so the monopolist must be subsidized for the loss. See the Graphing Tutorial on pages 260-26, for a discussion and a graph that compares the two types of regulation.

4. A strong argument could be made for a policy of laissez-faire when the markets under consideration are contestable. The threat of entry into the market by other firms will cause the monopolist or oligopolist to moderate prices. The existence of countervailing power can also justify a policy of laissez-faire. The ability of a firm to raise prices might be checked by some other economic power bloc. For example, an oligopolistic supplier of a supermarket chain, also an oligopolist, might be unable to raise prices on goods supplied to the supermarket chain because the chain purchases such a large volume of goods. Market power checks market power.

5. The Sherman Act was passed in 1890, but though it made contracts, combinations, and conspiracies in restraint of trade illegal, and the pursuit of a monopoly a felony, the act was quite vague and difficult to enforce. Therefore, in spite of victories by the Department of Justice against Standard Oil and American Tobacco, monopoly power in the United States was largely unchecked. In 1914, the Clayton Act was passed; it had more specific language to describe anticompetitive practices that were listed as illegal, including price discrimination among purchasers, exclusive contracts where purchasers would agree not to buy from competitors, the purchase of the voting stock in a competing firm, and board members sitting on the board of directors of competing firms.
Homework Questions

True-False Questions — If a statement is false, explain why.

1. It is unnecessary to regulate contestable markets because the credible threat of entry into the market keeps the price reasonably low. (T/F)

2. Antitrust enforcement in the United States has been lax and has never broken up an alleged monopoly. (T/F)

3. The Clayton Act strengthened the Sherman Act by identifying specific types of noncompetitive behavior. (T/F)

4. The theory of countervailing power suggests that competing power blocs in the economy prevent any one from exercising excessive monopoly power. (T/F)

5. Regulation according to marginal cost pricing results in a higher price for consumers compared to “fair” or average cost pricing, however, “fair” pricing may require that the regulated firm be subsidize. (T/F)

Multiple-Choice Questions

1. One argument in favor of a laissez-faire policy with respect to monopoly and oligopoly pricing is that
   a. the high prices they charge are good for industry profits
   b. these large firms are able to realize economies of scale and end up pricing at levels at least as low or lower than firms in perfect competition
   c. they are too complex to regulate
   d. these industries could never be contestable
   e. regulatory commissions are inevitably staffed by self-interested personnel

2. Which of the following legislative acts strengthened antitrust enforcement by defining four specific areas of noncompetitive behavior?
   a. the Interstate Commerce Act, 1881
   b. the Celler-Kefauver Act, 1951
   c. the Sherman Act, 1890
   d. the Clayton Act, 1914
   e. the Federal Trade Commission Act, 1914

3. The primary goal of antitrust policy in the United States has been to
   a. allow firms to stay large if they experience economies of scale
   b. regulate essential industries
   c. create subsidies for competitive firms
   d. foster market competition
   e. limit the prices charged by monopolists
4. The Federal Trade Commission was created in order to
   a. enforce only the Sherman Act
   b. establish “fair” price regulations in monopoly markets
   c. investigate and initiate complaints related to unfair business practices
   d. hear antitrust cases brought by the Antitrust Division of the Justice Department
   e. encourage competing firms to accept agreed-upon shares of the market

5. A fundamental problem with the “fair” price method of regulation is that
   a. the regulated firm has little incentive to control average total cost
   b. will require a subsidy in order to continue producing
   c. the market will never be contestable
   d. such regulation interferes with the application of antitrust legislation
   e. regulated firms typically must be nationalized at some future time

Discussion Questions/Problems

1. Using a graph and in words, contrast the “fair” price method of regulation with the marginal cost pricing approach to regulation. What are the advantages and disadvantages to each one?

2. Why was the Sherman Act relatively ineffective? How did the Clayton Act strengthen the Sherman Act?