

Book Review

Competition Policy: Theory and Practice

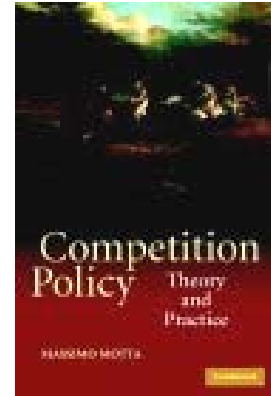
Massimo Motta

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In this wide ranging study of competition (anti-trust) economics and policy, Massimo Motta provides a systematic guide to the subject pitched at different levels of knowledge and training. The reader can also take the book at their own level: those without formal training in economics can simply follow the highly readable text, whilst those with a more mathematical bent can delve into the formal explanations of some of the concepts. Exercises and case studies take the reader still further into the subject.



The book starts with a brief history of competition policy in both the United States and Europe and then takes us through the key concepts of market power and welfare. In this chapter Motta discusses the chilling effects of monopoly on both static and dynamic efficiency gains. But the book is too sophisticated to draw a simple conclusion such as the more competition the better. As Motta points out, “it is precisely the prospect of enjoying some market power (i.e. of making profit) that pushes firms to use more efficient technologies, improve their product quality or introduce new product varieties. If anti-trust agencies tried to eliminate or reduce market power whenever it appeared, this would have the detrimental effect of eliminating firms’ incentives to innovate.”

Competition Policy goes on to explore the main issues such as cartels, joint-ventures, mergers, vertical contracts, predatory pricing, exclusionary practices and so forth. But again he doesn't present easy answers. Motta points out that there are two sides to most stories and that judging whether, for example, a price reduction by an incumbent is predatory or not is in part, at least, a value judgement and not a precise science even though the theory of predatory pricing has advanced significantly in recent years. He does give some useful benchmarks which can be used to judge whether, *prima facie*, a price cut by an incumbent is predatory: a price above average total costs is lawful; a price below average total costs but above average variable cost should be presumed lawful with the burden of proof on the plaintiff; and a price below variable costs should be presumed unlawful with the burden of proof on the defendant.

Massimo Motta has produced a thorough and structured book which students and practitioners alike can use to supplement and refresh their knowledge of an increasingly complex subject. One can only admire his encyclopaedic knowledge of the subject and his ability to present it so well. Thoroughly recommended.



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