

# Regulation (2)

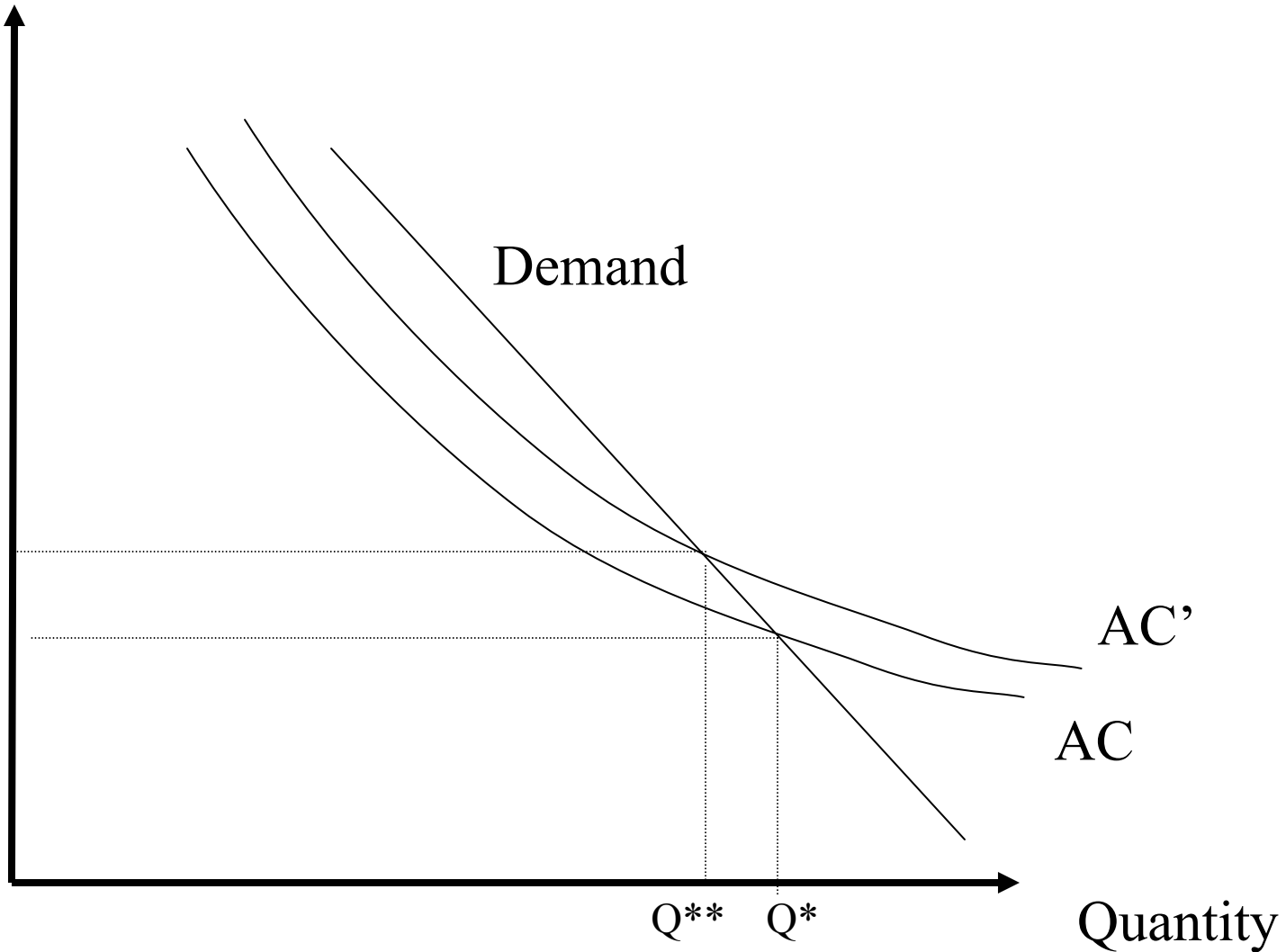
# Non-linear pricing

- Other types of price discrimination:
  - Examples
- Peak-load pricing:
  - Charge different prices at different times
  - Examples
- Multi-product firms and cross-subsidization:
  - Example
  - Different ways of average cost pricing
  - Shared cost allocation and Ramsey pricing

# Rate of return regulation

- (Regulated) firms have more information than regulators
- Hear firm price proposals
- Rate-of-return (on capital assets) criteria
- Incentives to distort capital to labor ratio (Averch and Johnson effect)
- Additionally, no market discipline

# Averch-Johnson effect



# Price-cap regulation

- Maximum price increase every year:
  - Inflation minus expected productivity improvements “RPI – X”
- High-powered incentives to reduce costs
- Review every 5 or 10 years
- Difficult to agree on price
- Examples:
  - Britain: most deregulated industries
  - US: local telephony

# Entry regulation

- Industries with price regulation have entry regulation as well
- Necessary?
  - Cream-skimming in multi-product firms
  - But natural monopoly could also be unsustainable for single-product firms

# Unsustainability of natural monopoly

