

Price Regulation in Domestic Market: Incentives to Collude in the Deregulated Market

Authors : S. Avdasheva, D. Tsytsulina

Abstract : In many regulated industries over the world price cap as a method of price regulation replaces cost-plus pricing. It is a kind of incentive regulation introduced in order to enhance productive efficiency by strengthening sellers' incentives for cost reduction as well as incentives for more efficient pricing. However pricing under cap is not neutral for competition in the market. We consider influence on competition on the markets where benchmark for cap is chosen from when sellers are multi-market. We argue that the impact of price cap regulation on market competition depends on the design of cap. More specifically if cap for one (regulated) market depends on the price of the supplier in other (non-regulated) market, there is sub-type of price cap regulation (known in Russian tariff regulation as 'netback minus') that enhance incentives to collude in non-regulated market.

Keywords : price regulation, competition, collusion

Conference Title : ICLRPP 2015 : International Conference on Law, Regulations and Public Policy

Conference Location : Berlin, Germany

Conference Dates : May 21-22, 2015