Discussion of Besanko, Doraszelski and Kryukov's T*he Economics of Predation: What Drives Pricing When There is Learning-by-Doing?*

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Predatory Pricing

Predatory pricing = a policy of offering low prices which is value-maximizing *only* because it raises the probability that rival firms will exit either now or in the future

- typical view: period of sacrifice followed by recoupment once exit occurs

Predatory Pricing

Predatory pricing cases are hard to prove because

1. hard to evaluate firm's expected profits from different actions
2. concern about condemning low prices
3. economic models of predation often seem implausible

"that predatory pricing schemes are rarely tried, and even more rarely successful" (*Matsushita v. Zenith*)

What Makes Predation Models Work?

- requires some type of link between periods so that aggressive pricing against current rivals makes future potential entrants expect they will face aggressive pricing, lower demand or higher entry costs
- possible links:
  - `demand-side'
  - `supply-side': e.g., learning-by-doing
  - reputation (e.g., Chain Store models)

BDK's Position in the Literature

- they consider a model with `learning-by-doing'
  - LBD provides a mechanism for keeping rivals weak, and committing to low pricing in the future
- like Cabral and Riordan (*EMA* 1994) they show existence of MPNEs with aggressive, predatory-like pricing and welfare trade-offs

BDK's Contribution

They go significantly beyond CR in showing:

1. exactly which incentives (building own advantage vs. weakening rival) lead to aggressive pricing
2. how these correspond to definitions of predation in the existing literature
3. how eliminating these incentives changes pricing, welfare and the types of equilibria that can be supported

- some conclusions may be model-specific, but some should not.

Comments and Questions

1. the paper is an excellent illustration of how recent developments in EP/MPNE models can be used to study policy-relevant phenomena is a systematic way
2. predation models often focus on exit, but the biggest incentives here just come from maintaining the firm's advantage relative to rival

- this may be relevant for cases like *Intel*

Comments and Questions

3. `multiple equilibria' could allow reputation to play an important role e.g., an entrant who is committed to low pricing

4. motivating `real-world' examples have features that may make predatory equilibria harder to sustain

- more than two firms
- multiple-product generations (entry only likely on the next generation)
- multiple customers per period
- `strategic customers'