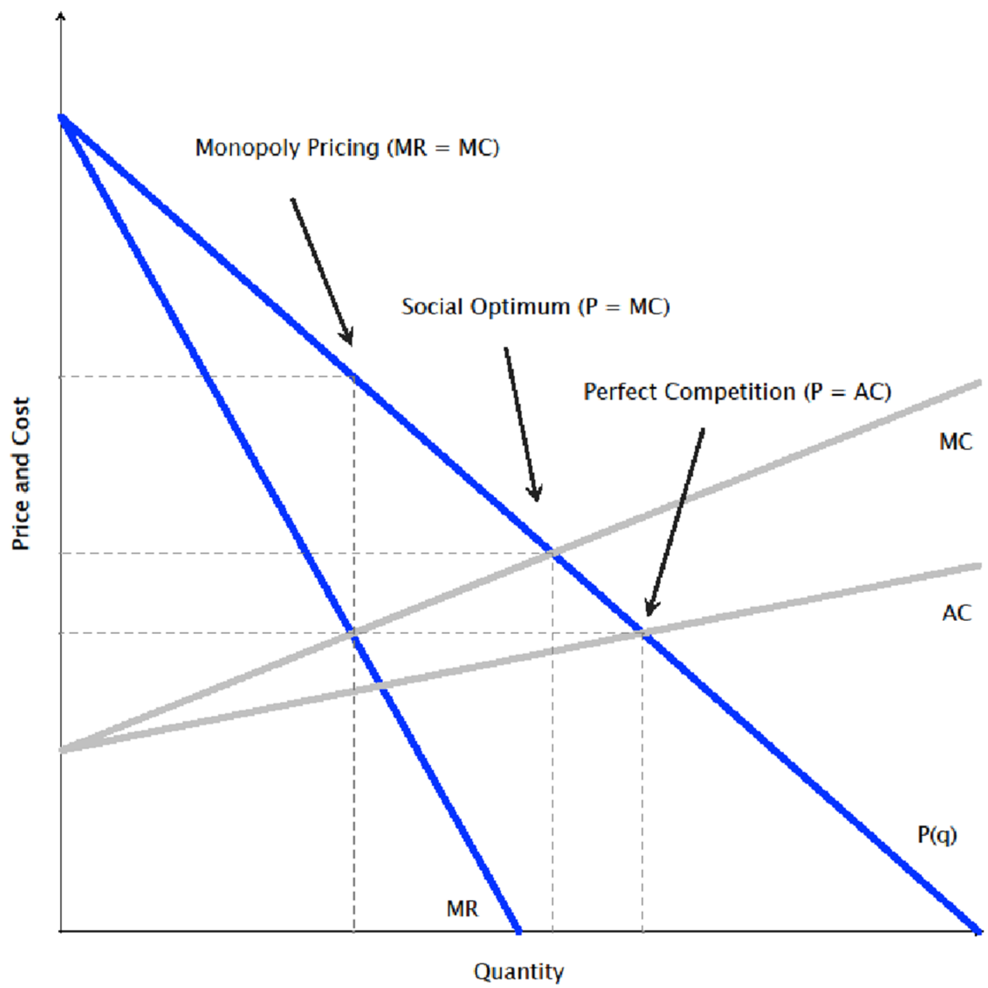
Natural selection?

- Assumption: When a firm attracts a new customer, it gets the average of all customers in the market.
  - Can extend to case where new customer is a weighted average of the inframarginal and marginal types.
  - Are there interesting market dynamics that determine the size of these effects?
- Labor Market Example (Greenwald, *REStud.* 1986).
  - Firms fight to hold on to their good workers.
  - Adverse selection of movers leads to too little competition for workers.

Join the queue.

- Merit goods and bads
  - *FTC v. Swedish Match et al.*
- Two-sided markets and multiproduct firms.
  - Inefficient price *structure.*
- Innovation
  - *U.S. v. Visa et al.*
- Complements and externalities.
  - Reduced pollution is not a cartel defense (Brennan, *Fordham Urban Law J* 1983)

New notation, please.



AC ≡ private marginal cost (PMC)

MC ≡ social marginal cost (SMC)

Potential Responses

- Abandon competition.
- Ignore the issue because its too hard or would lead to mischief.
- Appeal to a policy division of labor.
  - Taxes and subsidies.
  - Command and control.
- Ignore the issue because Congress decided we don’t care…

Who cares about total surplus?

- Clayton §7 prohibits an acquisition for which "the effect of such acquisition may be substantially to **lessen competition**, or to tend to **create a monopoly**."

- Even when looking at surplus:
  (a) tend to look at **consumer** surplus; and
  (b) the process element remains.

- Proposition: Market power reduces consumer surplus.