THE ACTIVITIES OF A MONOPOLY FIRM IN

ADJACENT COMPETITIVE MARKETS:

Economic Consequences And Implication For Competition Policy

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Abstract

The activities of firms with market power are the staple fare of anti-trust policy and have been extensively analyzed in the legal and economic literature. Most of that literature is concerned with activities that take place directly in the markets in which the monopoly power is actually or potentially exercised. But some writers and competition policy enforcers have expressed concern of a different kind: namely, that a monopoly firm's activities are to be feared even when they take place in other markets (usually called adjacent markets) in which that firm does not currently have a monopoly, nor even substantial market power.

In contrast to the literature on the direct exercise of market power the literature on adjacent markets has reached much less of a consensus as to when and why such indirect exercise of market power is to be feared. This paper seeks to assess where the debate now stands. The comparative confusion over the issue of adjacent markets, we argue, may be due to a failure to appreciate two important points.

(1) Firms exercising direct market power typically have both the *ability* and the *incentive* to inflict damage on consumers: actions that raise prices or lower product quality often also increase firm profits. By contrast, in adjacent markets firms with an ability to inflict damage on consumers do not necessarily have an incentive to do so: actions that raise prices compared to a comparative level in adjacent markets may lower overall firm profit.

(2) Very widespread and commonplace synergies may exist between activities in nominally different markets, either because costs and knowledge can be shared across activities, or because the assembling of component goods and services into new combinations creates real value for consumers.

Theses two points do not imply that concern about a monopoly firm's behaviour in adjacent markets is always misplaced. In fact, in this paper we identifly a range of circumtances in which such behavior may indeed raise a legitimate concern. But we emphasize that it is important to identify these circumstances fairly precisely: behaviour in adjacent markets *is* different from the direct exercise of monopoly power, and involvement in multiple markets *is* a normal and often innocent form of industrial activity, and neither of these intrinsically justifies a presumption of suspicion.

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