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Public Policies on Imperfect Competition



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- How can nations reduce the harmful effects of monopolistic practices?
- Three approaches are often recommended by economists and legal scholars:



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- Historically, the first tool used by governments to control monopolistic practices was economic regulation.
- As this practice has evolved over the last century, economic regulation now allows specialized regulatory agencies to oversee the prices, outputs, entry, and exit of firms in regulated industries such as public utilities and transportation.
- It is, in effect, limited government control without government ownership.



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- The major method now used for combating excessive market power is the use of antitrust policy.
- Antitrust policies are laws that prohibit certain kinds of behaviour (such as firms' joining together to fix prices) or curb certain market structures (such as pure monopolies and highly concentrated oligopolies).



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- More generally, anticompetitive abuses can be avoided by encouraging competition wherever possible.
- There are many government policies that can promote vigorous rivalry even among large firms. It is particularly crucial to reduce barriers to entry in all industries.
- That means encouraging small businesses and not walling off domestic markets from foreign competition.



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