

UChicago Delta Sigma Pi

Business and Economics Competition 2021

Economics Case Competition: Sample Presentation Outline

Sample Case Question

Consumer Protection and the Free Market: Can consumer protection policies and competition policies go hand in hand? How should these policies synergize with each other to ensure market efficiency?

Sample Presentation Outline

→ Introduction

- ◆ Definition of consumer protection and competition policies
- ◆ Outline and executive summary

→ Part I: Interactions between Competition and Consumer Protection Policies

- ◆ Opportunities
 - Competition Policies
 - Competition policies empower consumers, who in turn reward market behaviour that furthers their interests
 - Example: Manufacturer warranty as a showcase of manufacturers' commitment to product quality and voluntary restriction of moral hazard
 - Market competition also empowers consumers by increasing informational availability
 - Example: Marketing measures such as complimentary product sampling and advertising campaigns can enhance information availability in the market.
 - Consumer Protection Policies

- Consumer protection policies prevent misleading claims and promote productive sharing of information, which in turn promotes healthy competition
- Example: When suboptimal price competition was identified in Hungary's mortgage loans sector, consumer protection policies were instituted to resolve the issue, in the form of promoting information transparency

◆ Trade-offs

- Competition Policies
 - Intense competition may motivate firms to manipulate information in bids to draw consumers.
 - Example: Click-bait journalism due in part to lowered barriers to entry stemming from technological advancement
 - Unknown hidden costs as a result of deregulation
 - Example: US deregulation of financial industry in late 20th century led to financial innovation that outpaced regulatory developments
- Consumer Protection Policies
 - Consumer protection policies may limit the room for competition by raising barriers of entry into an industry
 - Example: A New York Times exposé revealed that the US hotel cartel has made deliberate plans to thwart the growth of AirBnB by citing safety and security concerns
 - Certain consumer protection policies also regulate producer behaviour that may limit competition
 - Example: Public outcry against ride-hailing companies' practice of surge-pricing have led to some cities imposing caps and bans on this practice. However, surge-pricing not only optimizes resource allocation, but also sustains the business by attracting more drivers.

→ **Part II: Policy Integration through a Unified Agency**

◆ Leveraging on opportunities

- Integration of policy tools

- A broader regulatory portfolio can expand and augment existing policies, as well as identify multiple sources of market inefficiencies
- Example: Use of behavioral economics in understanding decision making -- Microsoft was investigated in 2009 for bundling Internet Explorer with its Windows operating system. While this does not appear to be anti-competition initially, consumers do not switch from the preloaded Microsoft program due to the endowment effect, and thus other web browser providers have to expand resources to overcome this inertia of consumers. Eventually, the European Union compelled Microsoft to increase informational availability by displaying eleven additional web browsers upon the installation of a new system.
- Greater awareness of market dynamics
 - Recognizing opportunities and switching policies when existing tools lag behind market dynamics
 - Example: In some countries, regulatory oversight over taxi industry efficiency was made less relevant due to the entrance of ride-hailing services
- Holistic appraisal of policy tools
 - Being more sensitive to intended consequences by paying attention to potential trade-offs
 - Example: Safety regulations in emerging technologies such as solar energy might curtail industry growth and technology adoption which disproportionately impact nascent industries

◆ Challenges

- Conflicting objectives
 - Potential loss of focus in either objective and unbalanced prioritization
 - In particular, consumer protection policies have instant impact whereas the effect of competition policies may only be felt over the long term
- Inconsistencies in style

- Competition policies are top-down, generic, and transferable across industries
- Consumer protection policies are bottom-up and industry specific

→ **Conclusion**

- ◆ In most cases, the two missions are able to harmonise and provide the optimal outcomes to consumers. While we acknowledge the trade-offs present in specific cases, proper institutional design can help to overcome such challenges in the form of a unified agency.