

To Free or not to Free? The Policymaker's Dilemma towards Competitive Markets

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Abstract ID: 202

Inviato: 11/04/2023

Evento: XXI Workshop Annuale SIEPI

Argomento: 2. Concorrenza, antitrust

Parole chiave: Lobbying., Market and Political Power, Regulation

Economists like competition because, among other things, it decreases prices expanding output; but do policymakers like it as well?

I study the problem of a re-election-seeking policymaker that influences the degree of competition in a given industry. The policymaker wants to restrict entry if the elasticity of the equilibrium price to the number of firms is not too high. Moreover, the implemented degree of competition: (i) negatively depends on the corporate tax rate; (ii) positively depends on the degree of labor intensity of production; and (iii) positively depends on the steepness of the WTP distribution.