HAKMUN '26

WORLD BANK GROUP

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1. **Welcoming Letters**

1.1 Letter From the Secretaries-General

Official Letter from the Secretaries-General of HAKMUN'26

Honorable participants of HAKMUN'26

As the Secretaries-General of HAKMUN'26, which will take place from July 1st to July 3rd, we would like to extend our warmest welcome to all participants of this distinguished conference.

As this marks HAKMUN's first official edition and its first conference in Antalya, we aim to establish not only a conference, but a lasting tradition built upon vision, discipline, and excellence. HAKMUN'26 stands as a testament to what determined hard work and collective ambition can achieve when united under a single purpose. Our inspiration comes not only from our elders, but also from our younger selves, as we have held onto our ideals since the very beginning of our MUN journeys.

We believe that true greatness is not defined by titles, but by the ability to inspire, to take initiative, and to stand firm in the face of challenges. Throughout this conference, every delegate will be challenged to step beyond their limits, work diligently, and act with both confidence and integrity. HAKMUN'26 is designed to cultivate individuals who are not only participants of today, but also future leaders who will shape the world of tomorrow.

Our vision for HAKMUN'26 goes beyond just a three-day conference. We aspire to build a platform where diplomacy meets innovation, and where diverse perspectives come together to create stronger, more refined solutions. Each committee session, each debate, and each resolution represents a step toward fostering a generation that understands the value of cooperation, resilience, and strategic thinking. With this greater purpose in mind, we aim to contribute meaningfully to society.

As Secretaries-General, we have devoted ourselves to ensuring that every aspect of this conference reflects our commitment to quality and purposeful hard work. From our academic depth to our organizational structure, every aspect has been carefully planned and executed to provide you with an experience that is both intellectually stimulating and personally transformative, while also allowing you to socialize and enjoy the process.

Welcome to HAKMUN'26.

With our best regards,

Yağız Eren BAYBURTLU

Sacit Eren TUNCER

Secretaries-General

1.2 Letter From the Co-Under-Secretary General

1.3 Letter From the Co-Under-Secretary General

1.4 Letter From Academic Assistant

Dear delegates,

It's my absolute honour to be a part of this prestigious conference. My name is Egemen Ayyıldız, and I'll be serving as your Academic Assistant through our committee. I want to start my letter with overflowing thanks to my USGs, Kuzey and Baran, for giving me the chance to participate in this conference. They were the best academic partners I could ever ask for.

Now, while there's no doubt that we'll have a fruitful time, there are some crucial points you need to lay stress on. The first one being the study guide of ours. It's absolutely vital to read the study guide with excellent care and understand it. It will be our cornerstone to run the committee so by that means, please read it thoroughly. Another point being your attitude, it will be decisively important for the execution of our committee. Our committee relies on your efforts and knowledge suitable for this topic.

Last but not least, please be very eager to contact me on any questions you may have. I wish you the best luck out there.

Egemen AYYILDIZ

Academic Assistant of World Bank Group

2. Introduction to the Committee

In July 1944, delegates from 44 countries met for the United Nations Monetary and Financial Conference held at the Mount Washington Hotel in Bretton Woods. It was only one year after World War II ended and the aim was to create the framework for post-war international economic cooperation and reconstruction. The intellectual leaders at the conference were John Maynard Keynes (Adviser to the Treasury in the United Kingdom), and Harry Dexter White (Assistant Secretary of the Treasury in the United States).

The conference resulted in the formation of two institutions, the International Monetary Fund (IMF), and the International Bank for Reconstruction and Development (World Bank), the creation of the World Bank was not the primary focus. The work of the World Bank Commission, on the other hand, occurred only in the last few days of the conference. Its articles of agreement included rebuilding the economies of countries devastated by war and increasing the economic development of developing countries.

3. Introduction to the Agenda Item

Our agenda item focuses on preventing monopolies and unfair market practices such as cartels or price biddings. It is one of the major problems of capitalistic teaching and requires careful approach to it. It may seem difficult work, but the greatest joy comes from the hardest work. Designing regulations and establishing institutions are not enough, you also need to think about how not to establish them. Where do current regulations and establishments fail, that's the question we must ponder. Thinking outside the box and outside the ordinary economic principles will lead you through the committee.

For centuries, markets all around the World faced difficulties, and the modern World is no different. Unregulated markets, difficult conditions are the main problems of markets in the modern World. People who rule the markets exploited customers just to gain a little more money. Ditched the authorities, cheated the rules and did all kinds of illegal work. In all kinds of industries; construction, finance, healthcare, the position is the same.

It falls to our hands to fix our ancestors' mistakes and make not just the markets but the World a better place.

4. Competition Economics

4.1 Competition

Economic competition is the common meeting-grounds of potential buyers and sellers. Generally, sellers compete with each other to draw attention; and get the most potential profit as possible. Similarly, the potential buyers compete with each other to obtain goods from the best possible price. Everyone acts voluntarily and motivated by their self-interests; when those two individuals meet at the common-grounds and get to an agreement, they arrange a pact or contract between them which allows them to exchange their property rights on a good, service or asset.

In the general process of these actions, much information is signaled through prices. Keen sellers, who are trying to attract buyers, cut prices to interest them in their service or goods. And buyers reveal their preferences by raising their offers to beat other buyers. When a deal is closed, no one may be entirely happy with the agreed price, but both individuals feel better off. When prices exceed costs, the seller makes a profit which then motivates them to supply more.

Many profit or loss signals like these coordinate millions of sellers and buyers in the complex, and evolve the modern economy while doing so. The "dollar democracy" of the market ensures that buyers get more of what they want and expend fewer resources on what they do not want. We can say competitive prices work like radio signals: easy to perceive and we do not need to know where they come. Let's put an example, oil companies don't need to know why petrol prices go up, they only need the data, which tells them that it's going up. Then they would be free to start opening up new drill sites to maximize their income. Price competition informs millions of people in different markets; coordinating them effectively like an invisible hand as Adam Smith once said.

Suppliers also play their parts in nonprice competition. They improve their products to gain advantage over their rivals in the market. They incur the costs and risks of product innovation. This type of competition has inspired many people, and was the cause of countless revolutionary steps, starting from the first ever put out flight and the latest Boeing 747. Competition as such has driven innovation since the industrial revolution.

Differentiated products may give pioneering suppliers a market niche. Such a niche is never entirely secured, however, the same rules which apply to the general market apply here too; the suppliers will develop themselves and their products; keeping themselves in a creative stance.

Another instrument of competition is to lower costs, which allows producers to undercut competitors in price. This type of competitiveness allowed us to access calculators for a dollar or two while the first ones were sold for three hundred times the price.

Another tool to outcompete rivals is advertising, dragging the buyers attention. Suppliers may also offer warranties or after-sale services for complex products such as cars.

Competition dispatches people to remain alert and incur costs. Before anyone effectively competes with one other in the market, they need to gain knowledge. Buyers should consider what they can afford, what products are available, what their requirements are and more while taking prices into account. This imposes search costs, to give an example, think about your wandering and questioning before buying a house. At the same time, suppliers need to find out where demand is, what technical attributes people want in the products, where to obtain components, how to train their workers, how to distribute their wares and so much more. Such efforts can cost so much yet be ineffective or wrong. For every market bonanza, there are many disappointments. And other costs arise while sellers and buyers negotiate contract details.

In a dynamic, specialized economy, such search for knowledge and carrying of exchanges (called “transaction costs”) tend to be high. It is no big surprise that people associated with markets try to reduce these costs and risks. One way to accomplish such a thing is agreeing to some set of rules creating institutions, helping them economize knowledge and acquisition costs. The market meets people's expectations effectively when there are enforced and expedient rules. Another instrument which helps save costs is agreeing on long-termed, open-ended relationships such as employment contracts. Yet another one is advertisements, which allow sellers to inform buyers and save them search costs. Deal making is also facilitated by intermediates or market experts. Brokers, realtors or auctioneers are also some of the participants who act in the market.

To escape competitiveness surrounding the market, suppliers may try to form a “competitive truce”, building cartels, especially in those markets in which people need high capital to jump start their businesses (We must open a parenthesis here to avoid confusion. The cartel we’re talking about here is the monopolistic figures emerging to single-handly dominate the market, not the illegal crime organizations). To give an example, let's examine the International Air

Transport Association. The organization organized airfares, schedules and even little petty details like meal services.

Cartels' downfall usually begins when a member cheats on the common price, or when a firm outside the cartel competes with them while having superiority over price or product innovation, leading to suppliers losing market share. For consumers and the general market, this cheating on cartels is a boon.

The only way for monopolies or cartels to avoid competition for the long-term is by having government protection over them. Politicians and bureaucrats usually bring harsh regulations with great pleasure, hiding behind excuses about health, safety, protection of national interests etc. But in reality, inhibiting competition is often better for regulators, who obtain moral or financial support for the next election. Economists call this "rant seeking" and point out that it is invariably the expense of many buyers out there, with them unknowing how costs are inflicted by political interference. Interference may comfort few suppliers but harm the wealth of nations, the benefit of many. For these reasons, many economists believe that governments should protect and cultivate the untrammeled competition. This conclusion has, for example, inspired political attempts to control mergers, monopolies, union power, and cartels through internal competition policy; and the creation of the World Trade Organization, which was formed to protect international competition from opportunistic governments.

Competition works well only if there is a free market, and private property rights. No one would incur high knowledge-exploration if there is a risk of expropriation? That is why secured property rights, freedom of contact and the rule of law -the economical freedom basically- is the key to growth, low unemployment and diminishing poverty. Surveys lay before us that no strong economy is chained nor by government or anyone, and the poorest economies are the most captive ones.

From a society-wide viewpoint, lively market competition fulfills three vital functions:

Discovery: The aspect of human life can always be improved by new information. The competition between suppliers and buyers is the perfect motivation for searching for new knowledge. Self-interest motivates people to make the best use of one's skills. It may seem like a central plan led by governments to discover new products and processes is an effective way, however, experience has shown that central committees are not sufficiently motivated and simply cannot marshal all the complex and widely dispersed knowledge needed for broad-based progress.

Selection and peaceful coordination: Despite the unsettling surprises and changing conditions, competition fosters an ordered evolution, distributes adjustment burdens and coordinates different expectations. Competing and trading educates people about the “commercial ethic”, pragmatism in problem solving and keeping the peace to keep the job going on.

Control of power: Supplier competition empowers customers and competing employers empower workers. While some will try to rent seek, it is significant for the rich to stay in competitiveness. Only then will they reinvest their fortune to further search for the benefit of humankind. They will not always be successful, matter of fact, none of the American fortunes that existed in 1950 are still intact today. Concentrations of economic power redistribute wealth as competition tames it.

To finish this topic, let’s hear out US Senator Henry Clay said in 1832: “Of all human powers operating on the affairs of mankind, none is greater than that of competition.”

4.2 A Perfect Competition

Perfect competition, or pure competition, is the utopian dream of an idealized market condition in which many sellers compete to offer the best prices and large sellers have no advantages over smaller ones. This type of competition is rare as hen’s teeth in real world markets, however, it is important for understanding how supply demands influence prices and behavior in a market economy; ergo, it stays as an important teaching in capitalism.

There are a large scale of sellers and buyers in a perfectly competitive market, and prices are inducted by supply and demand. In the long-term, businesses gain no more money than they need to remain in business and cover their assets, ergo, they gain no advantage over other competitors.

Perfect competition is an example for real-life markets to be compared to them. It is the opposite of a monopoly, allowing many competitors to compete in equal conditions. However, in a monopoly, the dominating firm can change its prices as they want because consumers have no different option than them. Needless to say, it's extremely difficult for new competitors to enter the market.

As we said, there are no monopolies in a perfect competition model, and it has its own kind of key characteristics:

-All firms products are more or less the same. It's commodity or homogeneous.

-All of the businesses are price takers, meaning they can't impose their own prices over the market.
-Market share doesn't influence prices.
-Buyers have all of the knowledge they need about a product's information and about the prices that have been charged.
-Capital resources and labor are perfectly mobile.
-Firms can enter or exit a market without any cost.
All of you may notice by now how perfect and impossible these conditions are to be met in the real world. So, we may say that all existing markets are imperfect.

Now, we will move on with the factors which define pure competition.

A large, homogeneous market: A large number of buyers and sellers may be found in a perfectly competitive market. The sellers are small firms who can't control the prices through supply adjustments. They sell products that show little to no differences in capabilities, features or pricing. Buyers may substitute one product with another.

Perfect information availability: Information about an industry's ecosystem and competition constitutes a significant advantage. Knowledge about component sourcing and supplier pricing can make or break the market for certain companies. It can help companies develop strategies and build a defensive line for their products, especially in sectors where patents are common and knowledge is key, like pharmaceuticals and technology.

Absence of controls: Governments play an important rule, controlling and imposing their rules. Regulations and price controls are a thing in almost every country. For example, the pharmaceutical industry must contend with a series of rules about the governance of development, production and sale of drugs.
These rules play an important role for businesses to form capital investments in the form of employees, lawyers, infrastructure and such machinery; in our case being the ones manufacturing medicines. This costs cumulate and make it costly for companies to get into the drug market.
Hovewer, such control does not exist in a pure competitive market. Entry and exits of firms are unregulated freeing them to spend as much capital as they want on labor and assets without any restrictions.

No transaction costs: In a perfectly competitive market, there are no transaction costs, meaning buyers and sellers are free to trade willingly without paying any cost for transformation, searching for information or completing transactions. This ensures prices remain consistent across the market and no firm can gain any advantage based on location or access to information.

4.2.1 Reality of Perfect Competition

Now you must be thinking how great it sounds in practice and how it's a cornerstone of capitalistic teaching. But like every ideology and utopia, the reality is far away from it. The real world differs from this utopia, mostly due to differentiation in production, marketing and sales. A small organic products shop can advertise about how they feed the cows and how it affects the quality of milk, or how they raise their non-GMO corn, setting their product apart from other competitors. This is called differentiation.

Homogeneous products and price takers may stay as an ideal, but global technology and trade transformation is improving information source and flexibility. The reality may be far away from the ideal teaching, but still important because of its ability to explain many real-life behaviours.

Many industries also have some barriers to entry, these can be high start up costs, or strict government regulations. These barriers limit the businesses ability to enter or exit industries.

4.2.2 Advantages and Disadvantages of Perfect Competition

Perfect competition is an example for a market economy. It provides a convenient model for how an economy works. But as all systems, it has its own flaws too. The value of a perfect competition framework is only accurate to the extent that it reflects actual conditions.

A negative feature of perfect competition is low profit margins. Since all customers have access to the same products, they naturally go for the lowest prices they can. Firms are unable to charge extra for a “premium” product feature. So, if we were really in a perfect competitive market, firms like Apple wouldn't exist as their products are more expensive than their rivals’.

Another negative impact of pure competition is the deficiency of innovation. The aim to gain more market share is the key motivator that drives companies to make innovations. But in a perfectly fair market, since none would be able to achieve such a thing, there would be no motivation to make something new after all. Long-term profitability of their work is zero.

Also, zero profit margins limit businesses opportunities to develop themselves. In a perfect market, firms would have much less cash than they have now to invest in their production capabilities. Even though an expansion of production capabilities could potentially bring down costs for consumers and increase profit margins, the presence of several small firms cannibalizing the market and ensuring the average firm size remains small wipes out such a possibility.

If we list some of pure competitions pros and cons, we can address a list like this,

Pros:

-Provides a convenient framework for modeling market activity.

-Demonstrates how producers are incentivized to provide lower prices.

-Is important by showing how the supply-demand chain works.

Cons:

-The pure competition model does not reflect real-life conditions.

-The model does not take into account the geographical differences and variations between products.

-The model does not show how producers benefit from economies of scale.

Since you now learned the shortcoming points of perfect competition, you may ask yourselves: Is it possible for firms to profit in perfect competition? While profits may be possible for brief periods, the market's dynamic would quickly cancel out the effects of positive and negative profits, bringing them towards an equilibrium. Since there won't be any knowledge asymmetry in the market, other firms could lower their manufacturing costs to achieve parity with the firm that made profit.

The average revenue and marginal revenue for firms in a perfectly competitive market are equal to product price to the buyer. The perfectly competitive market's equilibrium that had been disrupted earlier will be restored as a result. An adjustment of supply and demand ensures all profits or losses in such markets tend toward zero in the long run.

Now let's talk about a pure competition opposite: a monopoly. A monopoly means that a single company controls the supply of a certain product. Customers can't go elsewhere even if they are not satisfied with the service they are getting; because there is nowhere else to go. They can only decide not to buy the product.

The monopolistic company can set prices to maximize their income rather than setting prices based on supply and demand. Some types of firms are considered as "natural monopolies" because there may be a significant first-mover advantage that discourages competitors from entering the market. We will discuss it in more detail later on.

Before finishing this topic, we shall give a simple example to logicize everything thoroughly:
Imagine 50 kids selling the same lemonade on the same street. If a kid charges more, customers will go to another stand and the kid will go out of business. If a kid charges less, then they will lose money. So everyone ends up charging the same price and making just enough money to keep their business up and running. No one gets rich nor no one goes poor. That’s perfect competition.

4.3 How Monopolies Are Born

In business, a monopoly is a situation in which a single company or group controls all or nearly all of the market for a type of product or service. Having no competitors, monopolies are quite profitable we may say.
Even though companies are always working on increasing their market shares, acquiring a monopoly status is far from easy; so how do companies manage to do it?
There are several ways on how a monopoly can form. Some of them arise due to economies of scale, where a single firm can produce at a lower cost than many of its competitors. Mergers and acquisitions are also important figures that reduce market competition. Or they can get help from governments, and matter of fact, some forms of monopolies might be allowed or encouraged under certain policy goals.
The legality of monopolies in many of the world's countries are tied to how it operates rather than its existence. Antitrust laws such as the Sherman Act or the Clayton Act are designed to prevent anticompetitive practices. A monopoly counts as illegal when it signs secret deals, colludes or charges extreme prices. Courts often look for acts made to suppress competition and if customers are harmed by that activity.
Legal and natural monopolies are the two main monopolies we have on our hands; as they operate more efficiently under a single provider. They appear on those markets which duplicate infrastructure would be pointless. The main difference lies whether the monopoly promotes public benefits or bans competition and consumer choices.

Now, we may talk about how to establish a legal monopoly, and as you will see soon, most of them rely on some sort of assistance taken from the government.

Exclusive government-granted rights: Governments may grant firms specific rights to provide goods. It can be seen as the easiest way to become a monopoly. For example,in the 1600's, The East India Company gained exclusive rights from the English government; at the peak of their power, the firm was the real ruler of India. Having power to levy taxes and mobilize armed forces if needed.

Nationalization: Nationalization is a process in which the government takes control of a business or industry. Communist or leftist governments apply it extremely, controlling nearly all of the production. We will discuss it later in more detail.

Intellectual property ownership: Copyrights and patents are other instruments which can be used to create monopolies. Since the governments across the world protects intellectual property such as ideas, concepts or designs; firms can use these government-led figures to become a semi or full monopoly.

The best examples of this topic may be seen in the technology industry. Microsoft's Windows software gave the firm a monopoly on managing the users screen activities.

Control of resources: Having a rare resource under one's hand is an important way to create a monopoly. John D. Rockefeller is one of the names who took this path as he gained control of more than 90% of the oil pipelines and refineries in the United States.

Mergers and acquisitions: You can create monopolies with merging firms together even if you don't have any scarce resources. In such cases, economies of scale create economic efficiencies that allow companies to drive down prices to a point where competitors simply cannot survive.

There are also many reasons why monopolies may be created. While governments try to get rid of monopolies, they can try to create them in some cases. These monopolies are usually intended to keep the costs down, resulting in economies of scale.

Especially when it comes to utility companies, forming a monopoly may be the best option. Imagine a couple of companies digging up streets and installing pipes only for their company's use, that would be too costly right?

4.3.1 Disadvantages of Monopolies

Even though monopolies are great for firms, they often are harmful for consumers and customers. We can sort some of their downsides as:

High prices: Customers who purchase goods from a firm, enjoying a monopoly may pay overpriced for poor or inferior quality products.

Poor service: Since the customers don't have anywhere else to go, monopolies don't lay stress on customer services. If your water pressure is low, you don't have any other company to go to.

Competition hurdles: Monopolies make it impossible for new firms and entrepreneurs to enter the market. That is why in the USA, the US Department of Justice and Federal Trade Commission are tasked with approving merger deals; just like the case, merger of Sysco and US Foods Inc. They were the two biggest in the country, and merging them would mean end of competition for the food sector.

We would like to finish this section by explaining the difference between a monopoly and an oligopoly. An oligopoly is when a small number of firms dominate the entire industry. The firms then may collude by restricting supply or fixing prices in order to achieve profits. And the monopolies, as we said a million times, are a type of structure where a single firm dominates the whole market.

5. Regulatory Economics

5.1 What is Regulatory Economics?

Also known as regulatory analysis or regulatory impact assessment, its key factors lie beneath analyzing and evaluating the economic impact of regulation and regulation policies. Assessing the costs, benefits and unintended consequences of regulations on various stakeholders or industries is its main study area. Its primary goal is to minimize economic impacts while informing the design, implementation and evaluation of regulations to achieve policy objectives, in our case designing how the public policies would correct market failures.

Institutional economics and regulations are parts of a set of norms accepted by everyone. These norms define how people live their lives, making it important to determine the nature and extent of business relationships. Since new technologies and governments are evolving, regulations and institutional economics are still developing.

5.2 Key Concepts in Regulatory Economics

Evidence-Based Regulation: A growing desire for evidence-based regulation can be seen in the latest times. It supplies from the usage of empirical research and data analysis to inform regulatory decision-making. Policymakers and agencies heavily rely on impact assessments, cost-benefit analyses and regulatory evaluations to ensure regulations are grounded by solid evidence.

Emphasis on Competition and Innovation: Importance of competition and innovation is widely accepted by this field we're talking about. It works on enhancing and encouraging both innovation and competition through regulatory frameworks. Promoting market competition and preventing anti-competitive behavior is dead important. Especially policymakers work on approaches that balance customer protection and market dynamics to establish a fair and competitive market.

Technological considerations: Adapting to the advancing technology is another critical point for regulatory economics. It is important to design policies technology-neutral, flexible enough to adapt evolving technologies, and promote innovation while ensuring proper safeguards.

Risk-based regulation: It is important for regulatory economics to address significant risks to public welfare, health, safety and environment; that's when a risk-based approach to regulation comes in. Prioritizing regulatory efforts based on risk assessments, adopting a proportionate approach to regulation and focusing on outcomes rather than prescriptive rules are tendencies in risk-based regulation.

Regulatory flexibility and proportionality: Policymakers tend to design specialized regulations that consider the characteristics of industries, accommodate different types and sizes of businesses, and minimize unnecessary burdens. Flexibility and proportionality is important for guaranteeing that regulations are fit for their purposes.

Stakeholder engagement and transparency: Involving stakeholders in the regulatory process and promoting transparency is another increasing tendency in regulatory economics. Transparency increases accountability, builds public trust and ensures the regulatory decisions are made in an open manner.

Regulatory impact assessment and evaluation: Conducting regulatory impact assessments and evaluations to understand the economic effect of regulations gained worthy focus over time. This tendency involves assessing the costs, benefits and unwanted consequences of regulations before and after their implementation. Evaluations help policymakers to find weak points in regulations, identify unwanted consequences and enhance the effectiveness of regulations.

As you probably understood by this time, regulatory economics provides a framework for policymakers, agencies and analysts to assess the economic implications of regulations and make evidence-based decisions. It helps establish a balance between capturing policy destinations, protecting public interests and minimizing unwanted economic effects.

A note to take: tendencies can be influenced by many factors such as changing policies, technological developments or changing market dynamics. Specificities may vary over time and across jurisdictions.

Regulatory economics differ between the private sector and government sector as they need specialized objectives. You can see the key tendencies in regulatory economics for each sector:

Private sector:

Compliance and risk management: Private sector uses regulatory economics to focus on risk management and compliance. Firms analyze regulatory requirements to ensure compliance with laws and regulations. Dispensing resources to meet regulatory obligations, establishing internal controls and managing potential risks is allocated with this branch.

Regulatory impact assessment: Private sector firms may conduct their own regulatory impact assessments to understand the economic implications of regulatory changes in their businesses. Evaluating the costs, benefits and potential effects of regulations is the most critical point over here. Such analyses help decision-making authorities to plan their strategies accordingly.

Regulatory advocacy: Private sector actors often engage in regulatory advocacy to influence the development and implementation of regulations. They may provide input during the rulemaking process, participate in public consultations, and advocate for regulations that align with their business interests. Regulatory economics in the private sector involves assessing the potential impact of proposed regulations, identifying areas of concern, and presenting arguments to shape regulatory outcomes.

Compliance cost reduction: Private sector figures are often tended to reduce compliance costs that occur as a result of regulations. Most of their plans consist of streamlining operations, improving efficiency, and optimizing resource dispense, reducing the burden of regulatory compliance.

Government sector:

Regulatory impact assessment: Regulatory economics in the government sector evaluates the economic impacts of regulations by conducting regulatory impact assessments. Governments analyze the potential costs, benefits and distributional effects of regulations on various stakeholders, industries and the overall economy. Policy decisions, ensuring regulatory effectiveness and minimizing unwanted causes are all planned according to these assessments made.

Policy design and evaluation: Designing of evaluation of regulatory policies are done depending on regulatory economics. This involves considering economic efficiency, market dynamics and stakeholder interests when designing regulations. Economic analysis are done by governments to assess the designed and unintended consequences of regulations.

Regulatory flexibility and proportionality: regulatory flexibility and proportionality is an important instrument since they need to accommodate the diverse needs and characteristics of regulated figures. Designing regulations that bear in mind the size, capabilities and compliance costs of businesses is a regulatory economics job in the government sector. Governments also aim to balance regulatory requirements and minimize undue burdens on businesses while achieving policy goals.

Enforcement and compliance monitoring: Regulatory economics plays a significant role in government monitoring of enforcement and compliance. This branch helps identify the right enforcement plans, dispense enforcement resources effectively and assess the effectiveness of enforcement actions. Governments rely on economic analysis to understand compliance behaviours, detect areas of non-compliance, and design fines to keep compliance in order.

Regulatory reform and review: To increase the effectiveness of regulations, governments take a hand from regulatory reforms and review processes. Regulatory economics are used for analyzing the performance of implemented regulations, detect areas for improvement and streamline regulatory frameworks. Its government's main priority is to reduce unwanted burden and promote better regulatory outcomes.

Keep in mind that there can be collaborations between the private sector in the world of regulatory economics. The collaboration between may lead to more effective and balanced regulatory outcomes.

5.3 Deregulation

Deregulation can be identified as the reduction of government influence on an industry. People advocating deregulation argue that it creates more competition and is necessary for economic growth. Opponents on the other hand argue that deregulation risks harm customers, workers and the environment.

The struggle between these two perspectives has shifted market conditions. Some sectors in the United States that have been deregulated include trucking, railroads, and airlines. The financial sector went through a lot of different conditions; being regulated; deregulated and re-regulated over the years.

Key points:

-Deregulation proponents advocate removing regulations will allow businesses to continue their works more freely and will create more jobs,

-Opponents argue that deregulation hurts customers and workers,

-The finance industry has gone through tempestuous situations in terms of regulation and deregulation throughout the past century, especially in the United States,

-It reduces bureaucracy, which makes it easier for companies to operate and innovate more freely and easily.

Like we said, deregulation is subjected to a lot of criticism. The opposers believe that it leads to ethically questionable practices, removes accountability and promotes a lack of transparency. Elimination of regulations may end in detrimental impacts on consumers and workers.

We wouldn't want to get too deep into deregulation history so we will continue with its effects and examples. The aimed effects when a deregulation is implemented is to increase investment opportunities by eliminating restrictions for new businesses to enter markets. Increasing competition leads to innovation and as firms enter markets and compete with each other, consumers benefit from low prices.

Reducing the need of resources and capital to comply with regulations allows businesses to invest in research and development. Without needing to comply with mandates, businesses will spend their time and money developing new products and exporting more goods.

Now let's give an example to logicize everything:

In 1978, the US Congress passed the Airline Deregulation Act, changing the landscape of the industry. Removing restrictions was a big opportunity for entrepreneurs who wanted to get into the market; creating smaller regional competitors.

It also allowed airlines to fly to new locations, increased the number of planes in the air, and boosted the number of passengers per flight.

6. Preventing Monopolies

In this section of our guide, we will talk about the precautions taken in the past to prevent monopolies. It is important you understand this chapter in order to have an idea of what you can do against monopolies, and how you can balance market dynamics without damaging its structure.

6.1 Antitrust Acts

Antitrust acts are federal and state figures that keep the markets competitive by preventing any anti-competitive practices. It blocks businesses from unfairly controlling prices, shutting out rivals or merging in ways that leaves customers with little other choices. The three main and most important antitrust acts date back to the late 1800s and early 1900s yet, we are going to talk about two of them: the Sherman and Clayton antitrust act.

But first, we must understand what antitrust laws prohibit and how they do it. At their very core, antitrust laws target actions that change competitive behaviour with coordination. The specific practises that draw enforcement attention fall into a few broad categories:

Price fixing: Competing businesses may strike a deal, agreeing to charge the same prices; removing the competitiveness customers rely on.

Bid rigging: Companies which should be competing for a contract or deal may secretly coordinate their bids on purpose so a pre-selected winner can get the job at an inflated price.

Market allocation: Rivals may divide customers, territories or product lines to remove head-to-head competitiveness.

Monopolization: Being a large firm dominating the market is not illegal, however, using unfair tactics to do so is. Being the winner of competition by crushing your rivals with secret moves and anti-competitive conducts is surely not a good thing.

Anti-competitive merges: Mergers that would give the collaborating companies a huge market power, enough to form monopolies or rig the market as they want, usually face government challenges before they emerge.

Tying and exclusive dealing: Is conditioning sales of a product with one another, or requiring buyers to deal exclusively with one supplier. It's not a crime by small portions, but in abuse cases, its effect would lead to reducing competition.

6.1.1 Sherman Antitrust Act

The Sherman Antitrust Act is basically a law that helps keep the United States economy fair. The law was proposed by Ohio Sen, and was passed by John Sherman in 1890. It prevents companies from colluding or cheating on customers by dictating, controlling and manipulating prices; or forming monopolies. It aims to promote fairness and competition while regulating interstate commerce. The act was the first action of US Congress' in order to address the use of trusts as a tool that enables a limited number of individuals to control key industries.

To move further with the Act, we must first understand its historical context. Sen. John Sherman was the individual who proposed the Sherman Act in 1890. It outlawed contracts, conspiracies and other business practices that controlled trade and created monopolies; while being the first measure taken by the US Congress to prevent cartels and monopolies from taking over the market.

Back in the time, large corporations like Standard Oil and American Railway Union were seen as unfair monopol figures in the market. They had a growing hostility against them, and consumers were feeling like they were hit by extremely high prices for decent goods. These monopol firms were also the reason many competitors went out of business.

This was an important turning point in American regulatory and economics, defining the strategy towards businesses and markets. After the 19th century with the rise of big businesses in the market, American lawmakers acted with a desire to regulate business practices more strictly. Measures like the Sherman act received high support, but it was essential for lawmakers to keep the American market economy ongoing.

Competing businesses are not permitted to fix prices, divide markets or attempt rig bits. Specified penalties and fines await those who do not participate within the law. The act can impose both civil and criminal penalties on companies that don't participate.

Sherman Act is divided into three main sections:

-Section One: This section defines and bans specific means of anti-competitive conduct.

-Section Two: This section addresses end results that are by their nature anti-competitive.

-Section Three: This section extends these guidelines and provisions to the District of Columbia and U.S. territories.

6.1.2 Clayton Antitrust Act

The Clayton Antitrust Act is another legal work to avoid unfair market practices and monopolies. It was proposed by Rep. Henry De Lamar Clayton and enforced by the US Department of Justice (DoJ) and Federal Trade Commission (FTC). It reinforces previous antitrust laws by preventing exclusive deals; and encourages protesting and organizing, fostering labour rights.

But how can such an act shape businesses? We need to take a journey back to the turn of the 20th century. Back in the time, a couple of large US corporations began to dominate entire industries by predatory pricing, exclusive dealings and mergers constructed to eliminate anyone who competes with them.

In 1914, Rep. Henry De Lamar Clayton thought the market was up to no good and designed legislation to regulate such big companies' actions. The bill took its pass in the House of Representatives with a massive majority on June 5, 1914. After arguing some differences, a final version also passed early in October. Then, US President Mr. Woodrow Wilson signed the initiative into law on October 15, 1914.

The act is implemented by the FTC and prevents exclusive sales contracts, certain types of rebates, discriminatory freight agreements, and local price-cutting maneuvers. A ban on certain types of holdings are also a thing. The Clayton Act helps people to take legal action against companies and threatens with huge damages then they have been harmed by actions that violate the act.

Also, the act says that labor is not an economic good. It supports economic labour, making peaceful strikes, picketing and boycotts.

Now we may move to the key sections of the act. There are 27 sections but discussing six of them will be enough for us now.

Section Two: This section bases itself on unlawfulness of price discrimination, price cutting and predatory pricing. Preventing companies from monopolising and making it illegal for them to engage in anticompetitive practices is taken care of in this segment.

Section Three: Tying arrangements are the main figure of this segment. A tying arrangement is when a company strikes a deal with one another, preventing them from engaging in deals with a specific 3rd party company. This section does not allow companies buying or selling to enter into such agreements.

Section Four: The fourth section's priority is stating the right of private lawsuits. Anyone who has been damaged by anything banned in the antitrust laws has the right to potential compensation via lawsuit.

Section Six: Sixth section is about labor and exemption of the workforce. The section exempts labor unions and agricultural organizations with the premise that labor of a human being is not a commodity or article of commerce.

Section Seven: Mergers and acquisitions is the topic of section seven; especially when multiple of them come together to form a single entity. Mergers and acquisitions which hurts the market competition are prevented by this section. This section also identifies specific concepts including holding companies that are used through the act.

Section Eight: The last section we will talk about. It handles directors or executives' board management. According to this section, directors, officers or other executives can't serve at multiple boards at the same time. However, there are some exceptions.

You also might want to take a look at the provisions contained in the legislation. Some major highlights of provisions in the act can be seen below:

Price discrimination: It's the act of selling the same goods to different individuals or companies and charging different prices according to who buys the product. The law bans such practices since they can decrease competition and form a monopoly.

Tying agreements: As we said earlier, tying agreements are banned by the act. We wouldn't want to explain it again so we will move onto the next topic.

Mergers and acquisitions: The FTC gained the authority to analyse mergers and acquisitions thanks to the Clayton Act. If the merger would reduce competitiveness in the market or create a monopoly, the FTC can subvert the merger.

Interlocking directorates: This is the practice of having the same person as a board in two or more competing companies. As that one person can use its influence to manipulate the competition as he wants, the act bans this practice as we said earlier.

Private enforcement: The Clayton Act allows private parties to sue for damages resulting from antitrust violations. This allows individuals to seek compensation for damages that arise due to any of the provisions mentioned above.

We may also want to talk about labour organizations' role under the Clayton Antitrust Act. As we said earlier, the act provides people to form and organize labor unions. This means no court can stop a strike or organization. This matter is important on how it protects collective bargaining rights.

Some protections are also available for unions and their members, dispensed by the Clayton Act. In Section 20 of the act, you can see how it provides an exemption from antitrust liability for certain activities by labor unions; such actions involve collective bargains and strikes, as we said.

But of course, unions are not immune from antitrust liability for all their activities. If a union goes off-limits for a bargain for example, they can still be liable for price fixing. Furthermore, courts can file injunctions against unions if their activities threaten to cause damages to properties.

Also, there have been significant amendments made upon the Clayton Act. Even though it still is active today, it changed and developed over years.

Robinson-Patman Act of 1936: The Robinson-Patman Act strengthens laws against price discriminations among customers. It was introduced by Representative Wright Patman and co-sponsored by Senator Joseph Taylor Robinson; and signed by President Franklin D. Roosevelt on June 19, 1936. It was issued as a response to concerns that large retailers were able to negotiate better prices from manufacturers that small retailers.

The act involves a series of practises. It bans charging different prices for the same product in different areas or geographies, disallows choosing over customers (such as giving services to one but not the others), and prevents incentives to be offered based on the condition that a competitor is not to be transacted with.

Celler-Kefauver Act of 1950: Another amendment made is the Celler-Kefauver Act. It was authored and introduced by US Representative Emanuel Celler and US Senator Estes Kefauver of Tennessee; it passed the US Congress in 1950. It bans one company from obtaining the stock or assets of another firm if an acquisition reduces competition. It also allows antitrust laws to compromise all types of mergers across industries, not just horizontal ones.

The act gives the government the authority to subvert mergers if it helps a company gain too much market power, even if they do not form a monopoly. The act also requires companies to give the government notice should they meet certain size thresholds.

Hart-Scott-Rodino Antitrust Improvements Act of 1976: The last amendment we will talk about is the Hart-Scott-Rodino Act. It was sponsored by Senator Philip Hart of Michigan, Senator Hugh Scott of Pennsylvania, and Representative Peter W. Rodino Jr. of New Jersey. It passed the Congress and was signed into law by President Gerald R. Ford in September, 1976. It required companies to inform the government before they established large mergers or acquisitions.

According to the act, if the transaction is bigger, or if they have a certain amount of total assets of annual values greater than a certain value, they shall file a premerger notification for the government to inspect. The act also creates a waiting period of 30 days for government analysis though it can be extended if needed. During this 30 day waiting process, the merger can’t be completed.

6.2 Merger Analysis

To start discussing this topic, we should first understand what mergers and acquisitions are.

Mergers and acquisitions are the process of rendering companies or major assets of companies as one through financial transactions. A company may:

-Purchase and incorporate another company outright,

-Merge with another one to create a new company,

-Acquire some or all of its major assets,

-Make a tender offer (a bid by investors to buy some or all of the shareholders stock in a corporation) for its stock,

-Stage a hostile takeover.

These ways of combining or acquiring assets are merger and acquisition (M&A for short) activities. The term M&A also means the divisions of financial institutions that offer such services.

Even though these two terms are often used for one another, their meanings differ slightly.

If one company incorporates another and declares itself as the new owner, the purchase would be classed as an acquisition. It can be established only if the two companies are willing to participate.

In a merger however, two companies farm themselves as a single entity, it would be called a merger. In most cases, the size of companies who are merging would be approximately the same, and it would be known as merger of equals.

To glance at an example, we may discuss the Daimler-Benz and Chrysler merger. When those two companies agreed to merge, both companies' stocks were surrendered and new company stock was issued in its place.

An agreement can be named as an acquisition or a merger based on whether it's friendly or hostile when it is announced. The difference starts in the communication to the company’s board of directors, employees and shareholders.

Before moving on, we wanted to clarify what a hostile and friendly takeover means. A friendly takeover occurs when the board of directors and shareholders of the company being acquainted approves it.

In unfriendly or hostile takeovers however, the target company would not approve the acquisition. To complete the acquisition in these cases, the acquiring firm must buy large stakes in the target company and gain the right to control the firm. Which only then they may force the deal through.

Now, since we explained what those terms mean, we may move on with the different types of mergers and acquisitions.

A horizontal merger is when two companies in the same market or industry who are subjected to a direct competition decide to validate themselves as one.

A vertical merger is when a company merges with a supplier. Such as when an ice cream maker purchases its cone supplier.

A congeneric merger is when two companies within the same industry who produce different products agree to merge; a cable manufacturer and a television producer for example.

A market extension merger is when two companies who sell the same product in different markets render themselves as one.

A product extension merger is when two companies who sell different but linked goods in the same market merge.

And a conglomeration is when two companies who have nothing in common combine.

Also, there are many ways how mergers and acquisitions are valued to see if they should be stopped or not. Naturally, the seller will try to sell from the highest price possible and the buyer will try to acquire it from the lowest. But now, what matters for us is the objective studies we can use to value a company.

The first one is the price to earnings ratio. Examining the price to earnings ratio of a company shall assist the buying company better to see what the target P/E should be.

The second one is the enterprise to sales ratio. It is a valuation metric that compares a company's total value to its annual sales.

The third one is discounted cash flow. It is used to estimate the value of an investment based on its expected future cash flows. Forecasted free cash flows (the cash a company generates after accounting for cash outflows to support operations) are discounted to a present value using the company's weighted average cost of capital.

The last one is the replacement cost. To put it quite simply, let's imagine that the value of a company is the equal of all of its equipment etc. The acquiring company can order to buy the target at that price or can create a worthy competitor using the same amount of money.

It may seem complicated, but it is essential to fully understand every topic. With the analysis methods and types of mergers and acquisitions are written, we may move on to the next topic.

6.3 Price Regulations

Price regulations or controls are government established quotas that limit the prices for goods and services. They are designed to make sure everyone gets to benefit from some goods, control inflation and stabilize key sectors of the economy. However, if made unconsciously, they can also cause market imbalances like shortages.

They date back to ancient civilizations where emperors used them to prevent their people from getting exploited. They are still being used today in the modern world in markets or war periods to control the economy. They are often applied to consumer goods such as food, fuel or equipment to protect consumers while also maintaining the sellers intentions.

There are two types of price controls: price floors and ceilings.

Price floors are the minimum prices set for goods and services, they are implemented when authorities believe that prices are too low, which leads to an unfair market. This may occur when large corporations lower prices to unsustainable levels. Since large firms can handle losses more easily, they can take such action to get small firms out of business.

Price ceilings are the top limit for a price of a good. They can be implemented if inflation has risen sharply, there is an economic crisis, corporations or large producers may practice price gouging, or market prices generally risk becoming unaffordable.

There are positive and negative impacts of price regulations. Preventing producers from price gouging, -which is common in the housing/rental industry- protecting consumers during financial crises, or protecting small firms who can get easily pushed out of business by larger corporations are some benefits of price regulations. Also, keeping prices in control prevents firms from establishing monopolies. Large companies can manipulate prices when demand is high and supply is short; but with a limit, they can no more.

But as we know, markets are shifted to maintain demand and supply balance. Government-established price controls can lead to the creation of excess demand in the case of price ceilings. This can lead to illegal markets or shortages. Also, when prices are too low, producers suffer from decreased revenue. This may lead to lower quality of work and may force suppliers to cut corners.

So, to sum up everything; price regulations may help consumers buy necessary items, ensure smaller producers remain competitive and eliminate monopolies. But it also may cause shortages and illegal markets, excess demand or supply, drop quality or cause less development.

6.4 Nationalization

Nationalization is when a government takes control of assets or industries. It is commonly seen in the energy sector, especially oil. The results of this act may cause complex challenges since it usually involves hard assets and contractual agreements. Its goal is to enhance government control and address public demand. However, like many topics we discussed, if done wrongly, it may deter foreign investors or entrepreneurs, causing significant economic loss.

Several countries attempted nationalization. Mexico, Venezuela, Bolivia and Iran are some of them. In Mexico, the government nationalized the oil industry, establishing a state monopoly; which caused ineffectiveness for many decades. Venezuela attempted nationalization under the presidency of Hugo Chavez. It resulted in an impact on foreign investments without fully optimizing a production system. And Iran's nationalization in the 1950s caused geopolitical tensions. So far you should understand that nationalization is a dangerous strategy and should be practised much carefully.

6.5 Competition Authorities

A competition authority is a body responsible for establishing, preserving and enhancing a competitive environment. One of the most recognized ones is the Competition Authority (which translates to Rekabet Kurulu in Turkish) formed in Türkiye. It started its operations in 1997, with the purpose of preventing monopolies in certain markets and industries. It is the institution's primary goal to prevent threats that may hurt the competitiveness in the market. Preventing dominant enterprises from abusing their powers, challenging agreements and decisions which may result in unfair practices are the main goal of this establishment.

We may sort its working principles as:

<u>Impartiality:</u> Maintaining an equal distance to all stakeholders in all decisions and basing decisions upon solid evidence, concrete circumstance of the factual situation and other types of documents gathered during investigations.

<u>Predictability:</u> Performing duties consistently within the framework of applicable legislation, procedures, and principles, and establishing a predictable system of application guided by global developments, free market principles, rational justifications, and concrete data to ensure the most competitive and optimal market conditions.

<u>Accountability:</u> Sharing the taken decisions and given information with the public within a defined framework.

<u>Rapid-Decision Making:</u> Simultaneously reviewing decision-making processes to ensure decisions are accurate and effective.

<u>Participation:</u> Putting out activities together with linked persons or corporations and taking account of their views on the matters.

<u>Expertise:</u> Conducting their operations within its authority and responsibility using competent human resources based on experience.

<u>Efficiency:</u> Making sure dispensed resources are used with extreme care and effective productive manner for an activity.

Those are the main priorities of the Competition Authority in Türkiye. You probably got an idea or two on how to operate or establish one in the countries in need.

7. Types of Monopolies

In this section of our guide, we are going to take a closer look at types of monopolies. So far, we talked about natural and technological monopolies, now we will get to the bottom of them.

7.1 Natural Monopolies

A natural monopoly is when a company can effectively serve the market at a lower cost than its competitors. The industry suffers from high barriers to entry and expensive startup costs for new competitors to join the market. These types of monopolies can emerge in industries that require unique raw materials or technology.

A natural monopoly becomes a monopoly over time because of the market conditions, and they may not need to use any unfair practices, which means they also can't be stopped by regulations, antitrust policies of government manuals with proper reasons. It generally occurs when startup costs are high or if there is a powerful economies of scale that come conducting a business in a specific industry like telecommunication. These barriers may prevent new players from joining the market.

Two main factors which lead this type of monopoly can be:

1) When a company takes advantage of high barriers to entry of an industry, creating a protective wall around its business operations. The high barriers are often caused by the massive need of capital to purchase fixed assets, which a company needs to operate functionally.

2) In some conditions, producing at a large scale rather than a small portion may be more effective. In these cases, just one brand can satisfy all the customers and market demands. Small-scale producers can not compete with them since their costs are higher.

Natural monopoly of a single large producer is an economically efficient way to produce a good or a service in question. This is not due to large-scale fixed assets or investments but the result of the simple first-mover advantage, increasing returns to centralizing information and decision-making or network effects. Consider how redundant setting up a second electrical grid to power homes in a community when one is already set up.

Companies who enjoy a natural monopoly can sometimes exploit their advantages by restricting the supply chain of a product, inflating prices, or using their powers to damage figures other than just prices.

Many natural monopolies are classified as common carriers. Their businesses are recognized as having risks of abuse but allowed to continue their business as long as they serve the public's sake. Allowing access to their services without restriction of supplies or discriminating customers are the obligations of natural monopolies. In return of these liabilities, they get permission to operate as monopolies and also get protected from misuse of the customers.

Let’s give some examples of natural monopolies:

Utility industry: Utility monopolies provide water, sewer services, energy and other infrastructure services. The startup costs of a gas or electric transmission network around a city can cost millions of dollars. In these cases, having a natural monopoly settled in the market can be far more effective, as long as they don't abuse their power. So it is also noteworthy that capital cost is a strong deterrent for potential competitors.

Internet providers: Companies that provide internet usually have access to common use of rings or networks. So companies can use their monopoly powers over information, online interaction and commerce to exercise undue influence over what people can see, say or sell online. Regulations on this topic are important so the public does not suffer from misuse of monopolies.

Also there are search engines, social media platforms or online retailing in the modern world which can be counted as natural monopolies. Companies such as Google, Meta or Amazon have built empires based on the internet and resources. They enjoyed their first-mover advantages, network effects and natural economies of scale involved with handling large quantities of data and information.

7.2 Technological Monopolies

Technological monopolies do not differ from natural monopolies very much. As other companies enjoyed their first-öover advantages on other industries, technology companies did the same in the end. But there are some slight changes into technology markets legal frameworks. Even though these can sometimes be maddening for companies, it should not be our concern for our agenda item, so we will just move along with just giving an example upon this topic. It is also noteworthy that some monopolies are permitted to exist as they are seen as the best interest of customers. They can even be specially licensed to provide their services or products. This motion is like we talked about the natural monopolies topic. As long as there is a monopoly which actually benefits the customer or the public, they can be let exist by governments or so.

A classic example of technological monopolies is Microsoft and their huge dominance in the market in the 1990s. Their operating system "Windows" was so perfectly forged and designed that it became the standard for most PCs in offices, households or any company you can name. So as you can guess, it created a monopoly-like position; making it extremely difficult for new competitors to get into the market.

The antitrust cases Microsoft faced in the early 2000s created great concern about antitrust policies; and with Windows bundling with Internet Browser, the concerns were not in vain.

7.3 Monopolies in Developing Countries

Many markets around the world do not enjoy a perfect or functional competitive system, we acknowledged that so far. But when it comes to developing countries, the policies become dead important. The governments of these countries often fail to put the right regulations and the proper set of rules to eliminate the anti-competitive threats in their markets and industries. Moreover, the set of rules and regulations sometimes even help those dominating firms of the market reinforce their position even more. Today, more than a hundred countries passed competition laws to make sure their market stays competitive, however, anti-competitive practices still continue. State-owned businesses (SoEs) tend to be more significant market participants in developing countries and to benefit from undue competitive advantages.

Anticompetitive practices can be found in many markets of a country's important industries; cartels have been found in fertilizer, cement and transportation services' markets and they increase the prices at least twenty percent. Common consumer products such as bread and sugar, and critical financial services ranging from electronic payment systems to insurance, cost consumers more due to cartels and abuse of dominance. Bid rigging in public procurement is prevalent in construction, transportation, and health sectors.

So, what should be our strategy to combat such misuses? There are already some answers we gave. To explain them further:

<u>Designing pro-competition market regulation:</u>Opening specific, especially dominated, markets to competition; rendering them easier to get into, reducing government initiatives that protect less efficient firms, protect incumbents or facilitate collusion.

<u>Embedding competitive principles in broader public policies:</u> Establishing effective competitive politics which does not reinforce the monopoly-corporations positions in the market, state air, and infusing competition principles in regulatory reforms.

<u>Reforming the competition framework and its implementation:</u> Design of anti-cartel programs, coalitions, merger controls, market analysis techniques, and ensuring effectiveness of competition authorities.

<u>Fostering competitive neutrality in markets with direct state participation:</u> Designing mechanisms that minimize the distortive effects of incentives and state aid support and promote competitive neutrality among market players

The World Bank Group provides practical research and economic analysis, built upon the World Bank Group Markets and Competition Policy Assessment Tool (MCPAT), for reform implementation around three modules: antitrust rules and enforcement, pro-competition market and sector regulation, competition principles in broader public policies.

FOSTERING COMPETITION IN MARKETS		
PROCOMPETITION REGULATIONS AND GOVERNMENT INTERVENTIONS: OPENING MARKETS AND REMOVING ANTICOMPETITIVE SECTORAL REGULATION	COMPETITIVE NEUTRALITY AND NON- DISTORTIVE PUBLIC AID SUPPORT	EFFECTIVE COMPETITION LAW AND ANTITRUST ENFORCEMENT
Reform policies and regulations that strengthen dominance: restrictions to the number of firms, statutory monopolies, bans towards private investment, lack of access regulation for essential facilities.	Control state aid to avoid favoritism and minimize distortions on competition	Tackle cartel agreements that raise the costs of key inputs and final products and reduce access to a broader variety of products
Eliminate government interventions that are conducive to collusive outcomes or increase the costs of competing: controls on prices and other market variables that increase business risk	Ensure competitive neutrality including vis-a-vis SOEs	Prevent anticompetitive mergers
Reform government interventions that discriminate and harm competition on the merits: frameworks that distort the level playing field or grant high levels of discretion		Strengthen the general antitrust and institutional framework to combat anticompetitive conduct and abuse of dominance

In Kenya, the World Bank Group assists the government on how to design competition regulations that will generate private savings for firms and households. Anticompetitive agreements will be banned and practices will be removed. Estimated savings are around 18 million dollars annually in insurance markets alone. In addition, sector-specific work in agribusiness has helped unlock key markets that were closed to private investment because of statutory state monopolies.

8. Law and Economics

The law and economics is a very long and complex title. But we will not need all of the information this practice teaches. We will take a look at how we can use law as a tool to enhance economic efficiency.

8.1 Law as a Tool to Enhance Economic Efficiency

Instead of examining and practising law as a field idiosyncratic to itself, the law and economics field instead sees law as a social tool and tries to evaluate it most functionally. The stress is laid on not how the law is a unique corporate practice, but on the general economical state of the society. The most common claim made upon this branch is that legal practices are best characterized as tools for encouraging economical effectiveness.

8.1.1 Basic Concepts of Economic Reasoning

Theses is a fundamental set of concepts for us to acknowledge in order to understand law and economics. The most central claim is that human beings are rational maximizers of their individual satisfactions, and in turn, respond to incentives. A rational maximizer of personal satisfaction adjusts means to ends in the most efficient way possible. It is noteworthy that economics is not always about monetary issues, there are tones of non-monetary satisfactions as well. Every potential satisfaction is implicated in the calculus of economic satisfactions and therefore can be investigated according to economic or means-end rationality and the trade-off of costs and benefits. Normally what is aimed at through economic reasoning is the improvement of efficiency.

A more effective way of resource allocation is the one which increases the net value of resources. The allocation of resources differs from the equity principle which gets underlined in the distribution of wealth practice. Since some people value some products over others, the economic efficiency can be boosted with voluntary transfer of goods. The most common type of transfer which enhances effectiveness is the voluntarily made contractual relationship. Since one party values money over product and the other party values product over money, this exchange produces a net gain in economic goods. Both sides end up better off than before. Some economists have gone so far as to argue that such a contractual exchange is morally optimal because it works within both Kantian and utilitarian theories of morality. It is being argued that these "contracts" are a good example of interactions between free and rational agents. It can also be linked with utilitarianism because the idea of wealth maximization intuitively translates into more utility.

Economists use different terms to describe possible outcomes of economic exchanges. For example, Pareto optimality is defined as a point where resources are allocated such that no one is willing or required to trade further. Pareto optimality is the eventual endpoint of a series of Pareto superior moves. A Pareto superior change makes at least one person better off without making anyone worse off. Because no one is worse off after the trades are done, there are no losers in Pareto improvements; but, there can be many different Pareto optimal endpoints. Also, economists developed "Kaldor-Hicks" efficiency to compensate for obstacles to freely contracted exchanges. Kaldor-Hicks efficiency or potential Pareto superiority emerges when the overall economic gains outweigh the losses.

8.1.2 How Can Law Enhance Economic Efficiency

The law and economics branch claims that law is best seen as a tool to enhance economic efficiency. “How can law help encourage efficient transactions?” That is the key question we must ask. And one of the first answers to this question is avoiding situations which may end up in market failure. One example is the existence of monopolies in a market. Law can be used to make sure monopolies are hard to bring about and maintain. Another way legal systems can be used to ensure economically efficient transactions is through the enforcement of valid contracts. Courts can ensure that the other party will fulfill the agreed obligations. This action is important especially in situations where parties must complete their obligations at different times.

But some market failures are less obvious, making the legal tools more subtler which are used to maintain them. One of the problems in market transactions are externalities. An externatility is a cost not reflected in the market price of a good. For instance, a factory may not reflect the prices it imposes upon the environment to the selling price of the goods. In these cases, the selling price won't reflect the real price of a product. Ergo, some of the costs will be imposed ıpon the parties in an involuntary manner. Pigou argues in regard to this that legal means should be used to impose a marginal tax upon the offending party, to internalize any externalities. The economist Coase argued, while warranted in some cases, that this conclusion was too global. He said in a market where transactions are costless and people do not act strategically, the dispensation of rights is nonsense because from any starting point the result will be economically efficient. In other words. The Coase Theorem states if there are no transaction costs, then the assignment of entitlements will be irrelevant to the goal of allocative efficiency. In such a situation, the people will already be bargaining for the most effective allocation of goods, ergo there will be no need for law to internalize costs. But globally, there are always transaction costs such as information, opportunity and administrative costs. If transaction costs are high, then dispense of the property rights do matter. So in the end, the enforcement and allocation of legal entitlements will be important for ensuring economical effectiveness. In conclusion, yes, law can be used to encourage economic efficiency. But is law best described this way? Toss a coin.

8.1.3 Can All Law be Explained as Economic in Nature?

Law is also used to boost efficient exchanges. But it seems a little far-fetched to say that law as an institution is best described in economic terms. Seeing law as a complete gathering of markets is a little off the shore. However, by demonstrating that vastly different fields such as economic analysis of law, contract law, tort law, and criminal law are all grounded in economic objectives, it provides a more consistent foundation for the law than other theories can offer.

9. Detailed Takes in Microeconomics

We are at the tail end of our guide dear readers. This topic will heavily rely on economics knowledge and we will use a lot of charts for you to understand and materialize everything in your head.

Now let’s get back to the start of our guide: the part where we talked about competition and how monopolies are born. What you see below is the graph of a monopoly.

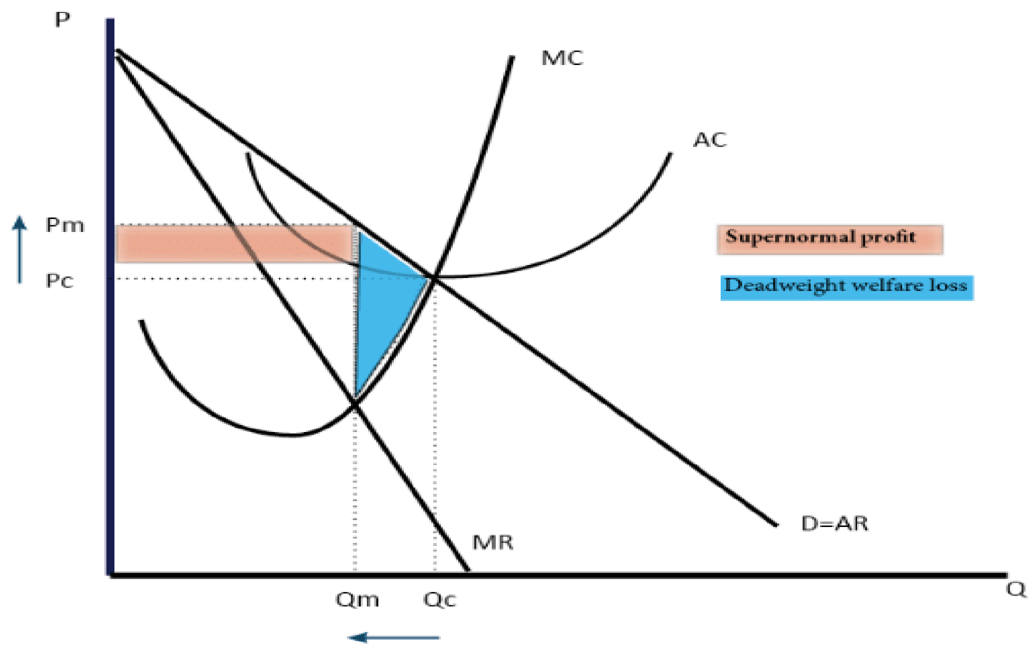
For vocabulary:

D) Demand = AR = average revenue. It shows the price consumers are willing to pay for each quantity.

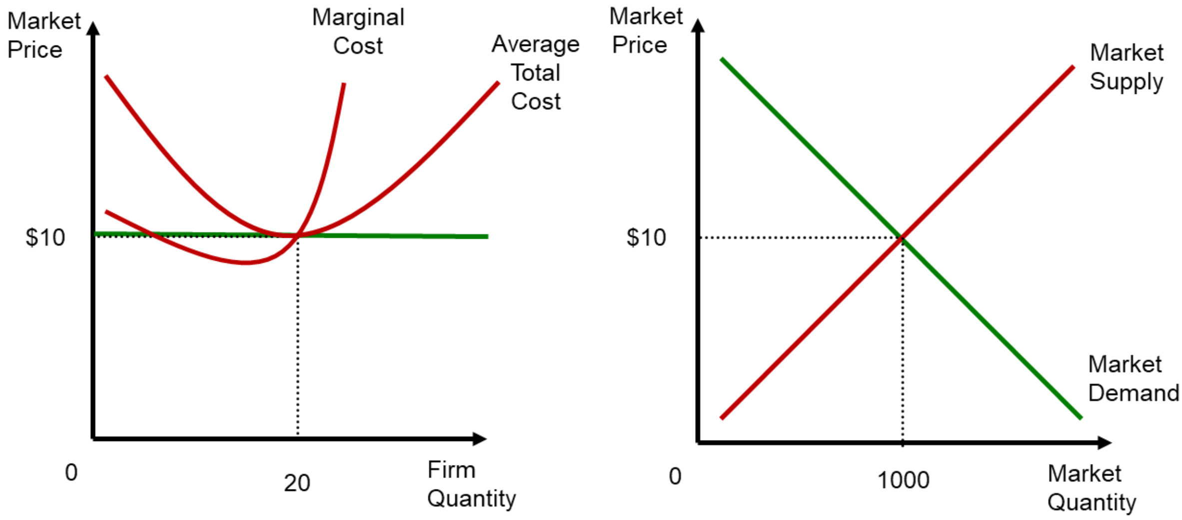
MR) Marginal revenue. It lies below demand because to sell more units, the monopol company must lower prices on all products sold.

MC) Marginal cost. Cost of producing one unit.

AC) Average cost. Average cost per unit.



In a perfectly competitive market, the firm's production would happen where; P = Mc. This happens at Qc (quantity), Pc (price). If this would be the case, the market would be allocatively efficient because the value consumers place on the product is equal to the cost of production.
However, this is not the case on this graph as you can understand. The monopoly maximized its profits where MR = MC. This occurs at; Qm (quantity), Pm (price). If we compare it to perfect competition, the monopoly would produce less output (because Qc>Qm) and the monopoly would charge a higher price (because Pm>Pc). The firm would restrict supply to increase prices.
The oranges are named supernormal profit and represent the monopolies economic profit. The formula is:
Profit = (Pm-AC) x Qm
Explanation is that the monopoly sells at price Pm, and its average cost is AC. The difference between them is profit per unit. Since the monopoly has higher market power, it can charge a price above its costs and earn abnormal profit.
And the blue area is deadweight welfare loss. It is the loss of total economic welfare caused by the monopoly. The reason for that is between Qm and Qc, consumers are willing to pay more than the cost of producing these extra units, ergo, producing them would generate additional social benefit. But the monopoly doesn't, because increasing output would reduce its price and profit.



And what you see above is the graph of a perfectly competitive market. The market graph (one on the right) shows the standard supply and demand dynamics for the whole industry.

The intersection of the green curve (downward-sloping demand curve), and the red curve (upward-sloping supply curve) sets the equilibrium price)
Now we shall look at the graph to the left. Since this is a perfectly competitive market, the individual firm is the price taker, it has no power to change prices and must accept the 10 dollar price set by the market.
The horizontal green line at 10 dollars is the firm's demand curve. As they can sell as much as they want from this market price, the price (P) equals their marginal revenue (MR).
A firm would maximize their profits where MR would equal MC.
Also we can observe that in the long run, there would be no economic profit (long run equilibrium). You can see that at exactly 20 units, the average total cost (ATC) curve also touches the 10 dollar price line. Since Price = ATC, the firm makes zero economic profit -which is also known as normal profit-.
So let’s sum it up. The market establishes a price of 10 dollars. The firm accepts that 10 dollar price and decides to produce exactly 20 units to maximize efficiency. If there are 50 identical firms in the market each producing 20 units, they satisfy the total market demand of 1,000 pieces.

10. Economies of Scale

Economies of scale represents the potential benefits of having a larger operatiın. In theory, larger operations are able to increase production, buy higher quantities of goods in bulk, and rely on process efficiencies. When these benefits are captured, it is said that a company is capitalizing on economies of scale as it is accomplishing more efficient use of resources due to its size.
The size of the business is the real deal for economies of scale. The larger the business is, the greater its cost savings. Economies of scale can be both internal and external. Internal economies of scale are based on management decisions, while external ones have to do with outside factors.
Internal functions are accounting, information technology, and marketing.Those are also counted as operational efficiencies and synergies.

Economies of scale is an important concept for any business in any industry and represent the cost-savings and competitive advantages larger businesses have over smaller ones.

Many consumers get confused with why small businesses charge more for the same product than larger firms. That is because the cost per unit depends on how much the company produces.

Larger companies are capable of producing more with spreading the cost of production over a larger amount of goods. An industry may also be able to dictate the cost of a product if several different companies are producing similar goods within that industry.

There lies several reasons why economics of scale gives rise to lower-per-unit costs. Specialization of labor and more integrated technology boost production volumes, that would be the first.

Second, lower per unit costs can come from bulk orders from suppliers, larger advertising buys, or lower costs of capital.

Third, spreading internal function costs across more units produced and sold helps to reduce costs.

And economics of scale also plays a big part in the online business industry. Technology companies often benefit from these advantages because software, cloud services, and digital platforms can reach millions of extra users with only a small increase in cost. After covering the main development and infrastructure expenses, adding new users or entering new markets can boost revenue without raising costs much.

Now, as we mentioned above, there are two different types of economics of scale: internal economics of scale originates within one company, linked to changes in how that company functions; and external economics of scale originates by factors that affect the entire industry, rather than one company.

<u>Internal economies of scale:</u> The internal economies of scale emerges when a company cuts costs internally, so they are one of a kind to that firm. This may be the result of the sheer size of a company or because of decisions from the firm's management. There are different kinds of internal economies of scale. These include:

<u>Technical:</u> large scale machines that increase productivity,
<u>Purchasing:</u> discounts on cost due to purchasing in bulk,
<u>Managerial:</u> employing specialists to improve different parts of the production,
<u>Risk-Bearing:</u> Spreading risks out across multiple investors.

Financial: Higher creditworthiness, which increases access to capitaş and far more better interest rates,

Marketing: More advertising power means a larger consumer base. Spreading advertising power across a larger market, as well as a position in the market to negotiate.

External economics of scale: External economics of scale differs from internal as it is acquired because of external factors, or factors that affect an entire industry. Which means no one company controls costs on its own. These occur when there is a highly skilled labor pool, subsidies and/or tax reductions, and partnerships and joint ventures—anything that can cut down on costs to many companies in a specific industry.

It is also noteworthy that management techniques and technology have been focused on overcoming the limits to economics of scale for decades.

Set-up costs have been dropping day by day due to more flexible technology. Equipment is priced more closely to match production capacity, enabling small producers to compete more easily.

Outsourcing functional services makes costs more similar across businesses of various sizes. These functional services include accounting, human resources, marketing, treasury, legal, and information technology.

Micro-manufacturing, hyper-local manufacturing and additive manufacturing (3D printing) can lower both set-up and production costs.

The International Monetary Fund (IMF) says that the prices of both capital goods and the cost of machinery and equipment have been falling in emerging, developed, and even industrial countries for the past three decades.

There is also the diseconomies of scale. Diseconomies stem from inefficient managerial, labor policies, or over hiring. The diseconomies may also be external, like a deteriorating transportation network.

Furthermore, as a company's effective area increases, it may have to distribute its goods and services in more dispersed areas. This can increase average costs, resulting in diseconomies of scale.

Some efficiencies and inefficiencies are location-specific. If a company has many plants throughout the country, they all can benefit from costly inputs such as advertising. However, efficiencies and inefficiencies can stem from a particular location, such as a good or bad climate for farming.

11. Policy Instruments

You will be using regulations, antitrust pacts, limitations and quotas to prevent monopolies from emerging in the market. Developing your own policies and, if possible, new practices will be the cornerstone in running our committee. We are expecting hard and difficult work from you which in the end, will leave us all satisfied with the outcome.

12. Questions to be Addressed

I) What can be done to ensure regulations are working properly and do not cause any side effects?

II) How can regulation laws and antitrust acts made in the past be enhanced to address the modern, fast-paced economy?

III) What type of institutions or laws can be established to prevent monopolies from emerging?

IV) What can be done to combat monopolies in developing countries, and how can the World Bank Group assist developing countries to deal with foreign technological monopolies?

V) How can small firms' position in the market be solidified, and what can be done to ensure they do not go out of business in harsh market conditions?

VI) In utility sectors where natural monopolies are economically efficient, what can be done to ensure private operators do not exploit customers?

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