

Minding Your Own Business

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Abstract:

I report an experiment to evaluate the Contestability thesis where the entrant and the incumbent have multi-market contacts. In such a setting the entrants might not like to hit-and-run as the theory predicts since the cost of a “hit” in the incumbent’s market is borne by the entrant in its own market due to the multi-market interactions. When there are multi-market contacts between firms the contestability result depends crucially on the relative profits between markets. I find that in cases where an entrant has its own monopoly market the sellers manage to cooperate and achieve profits close to the monopoly level. Instead if an entrant is from an oligopoly or perfectly competitive market it exerts considerable disciplining force in the monopoly market.