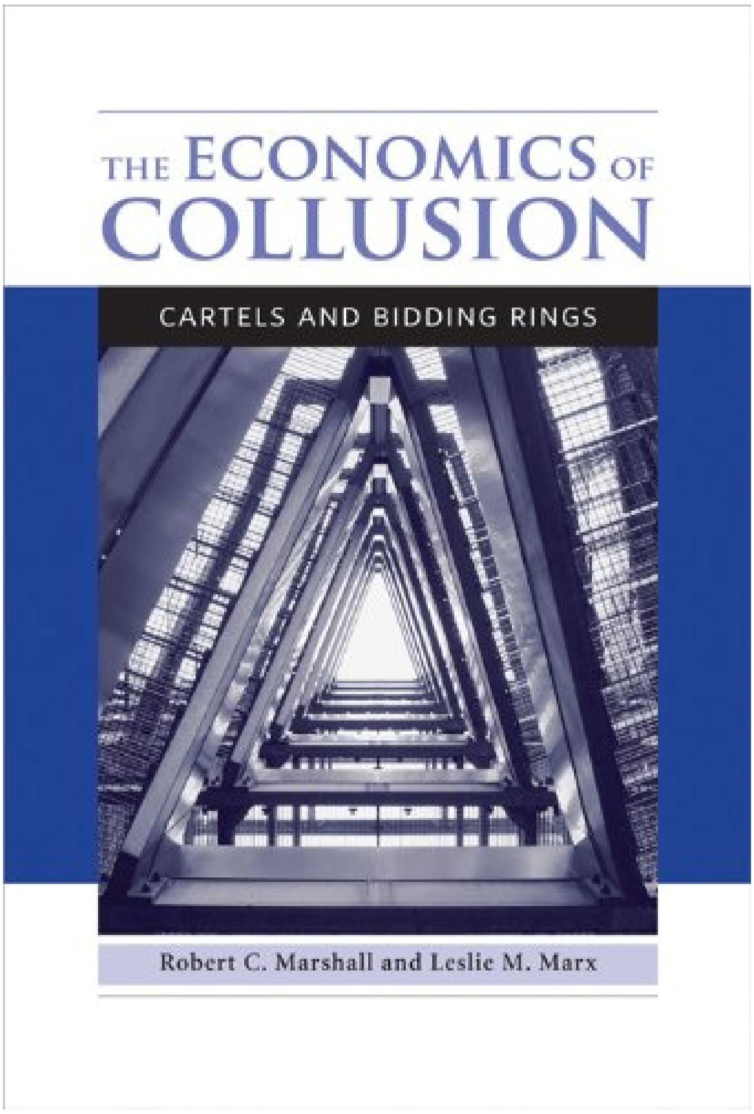
The Economics of Collusion: Cartels and Bidding Rings (MIT Press)

Robert C. Marshall, Leslie M. Marx



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Robert C. Marshall, Leslie M. Marx : The Economics of Collusion: Cartels and Bidding Rings (MIT Press) before purchasing it in order to gage whether or not it would be worth my time, and all praised The Economics of Collusion: Cartels and Bidding Rings (MIT Press):

2 of 2 people found the following review helpful. A thorough explanation of why entities collude and what to do about itBy Jack RivkinHave not seen anything as thorough on the topic of monopolies and lesser collusions. Worth reading for the lay person and all involved in the topic including company CEOs. Marshall and Marx have done a real service. It is a technical book but includes much that the lay person can understand. Unfortunately, you can't wait for the movie!0 of 1 people found the following review helpful. Interesting bookBy Komson ChanprapanGood book. I like

the way the authors present the idea. Many case studies provided in the book are interesting.2 of 2 people found the following review helpful. A good and intuitive introduction to the dynamics of collusion, although lacking in mathematical rigorBy UlfilasThe authors describe the nature of collusion, where a number of individuals or corporations seek to increase profits by agreeing to cooperate rather than compete. Much of this story is told as a series of vignettes, following the activities of the colluding entities as they secretly work together towards their common goal.One particularly easy to visualize example constructed by the authors is that of a bidding ring consisting of antique dealers who bid on high-end furniture, such as original Chippendale pieces, at estate sales and auctions. One particularly interesting practice of this bidding ring is that in which only one dealer belonging to the ring places a serious bid at any given time. That is, the members of the ring never bid against one another--which would drive up the price of the item. For show, however, the members do bid against one another at early stages of the bidding, but only when the price under consideration is at a ridiculously low level! Another reason that the members of the ring do not bid against one another is that a series of high ascending bids notifies less well informed auction attendees that the piece under bid is of great value, which provides free information to members outside of the bidding ring--resulting in others bidding higher and driving up the price! As the dream of the members of the ring is to buy valuable pieces at prices characteristic of neighborhood garage sales, constraining the bidding process is necessary in order to insure large profits.The discussion of bidding rings also provides a good introduction to the concept of the "square off" where the members of the bidding ring divide the pieces purchased among themselves after the auction--a process that often consists of a mini-auction that is conducted among the ring members. In corporate collusion there is also a square off process, though in this case it deals with the problem where one member of a cartel sells more units than has been agreed upon at the outset. Essentially, the member who has exceeded his sales quota must pay a penalty to the other members of the cartel, or buy units from the other members at a specified price.The authors also address the problem faced by cartels and bidding rings in avoiding government scrutiny, as such collusion activity is illegal. The members are seen to hammer out their agreements at trade association meetings, the minutes of which are recorded only by an employee (often a lawyer) of the trade association itself--while the cartel members themselves do their best to divorce themselves from the formal proceedings. It is also interesting that the square off often takes the form of the members of the cartel suing one another--a form of monetary transfer that is more opaque than more direct transactions. Collusive activities may also avoid government scrutiny by taking the form of constraining product quality rather than constraining price. In the early 1990's incandescent light manufacturers put this strategy into effect by capping the operating lifetime of each light bulb!The one place where this book falls short is in the mathematical description of competition. The authors devote a few tables and footnotes to a mathematical description of price competition, so that the derivation of the relevant equations remains almost completely opaque (pp.93-98), even for the simple linear model considered by the authors. The authors briefly reference about a dozen papers on this topic, with that of Singh and Vives, 1984 (which can be found online as a pdf file) given more attention than the others. To get some flavor for this class of models, the Wikipedia article on the Cournot pricing model is worth reading, especially as an example of Nash equilibrium. The model described by Singh and Vives, and that of Cournot, however, only involve two competing entities (i.e the duoloply case). I have yet to find a paper that treats an arbitrary number of competing entities to my satisfaction. The case with an arbitrarily large number of players competing for a slice of a given market is central to the collusion process, as the greater the number of players, the more difficult it is maintain the high prices that are the objective of the colluding entities.

Explicit collusion is an agreement among competitors to suppress rivalry that relies on interfirm communication and/or transfers. Rivalry between competitors erodes profits; the suppression of rivalry through collusion is one avenue by which firms can enhance profits. Many cartels and bidding rings function for years in a stable and peaceful manner despite the illegality of their agreements and incentives for deviation by their members. In The Economics of Collusion, Robert Marshall and Leslie Marx offer an examination of collusive behavior: what it is, why it is profitable, how it is implemented, and how it might be detected. Marshall and Marx, who have studied collusion extensively for two decades, begin with three narratives: the organization and implementation of a cartel, the organization and implementation of a bidding ring, and a parent company's efforts to detect collusion by its divisions. These accounts -- fictitious, but rooted in the inner workings and details from actual cases -- offer a novel and engaging way for the reader to understand the basics of collusive behavior. The narratives are followed by detailed economic analyses of cartels, bidding rings, and detection. The narratives offer an engaging entreacute;e to the more rigorous economic discussion that follows. The book is accessible to any reader who understands basic economic reasoning. Mathematical material is flagged with asterisks.

"Robert Marshall and Leslie Marx bring to this book a deep understanding of the scholarly body of research and an intimate and broad knowledge of actual cartels and collusive practices. While there are many scholars who possess the former, and many practitioners who possess the latter, it is a rare few who are in possession of both sources of insight. The Economics of Collusion delivers one of the most comprehensive and instructive studies of cartels ever written."--

Joseph Harrington, Johns Hopkins University"Professors Robert Marshall and Leslie Marx have produced a real gem. Their new book not only explains the challenges that face potential colluders, but the private and social costs of their actions. This is a must readhellip; economic theory, empirics, and storytelling at its very best." --Michael R. Baye, Kelley School of Business; Former Director of the Bureau of Economics Federal Trade Commission"This book provides a very accessible introduction to the economics of collusion. A unique feature is its use of narrative description to demonstrate the inner workings of cartels. The narratives are based on actual cases, which makes the book highly engaging and entertaining. This is a valuable resource for anyone who is interested in the topic."--Jay Pil Choi, Department of Economics, Michigan State University "Using an approach that is both intuitive and meticulous, Robert Marshall and Leslie Marx do a wonderful job explaining how cartels and bidding rings function. Students and practitioners will enjoy reading this informative, innovative, and well-written book."--Paolo Buccirossi, Director and Founder of Lear, RomeAbout the AuthorRobert C. Marshall is Liberal Arts Research Professor of Economics at the Pennsylvania State University.Leslie M. Marx, a former Chief Economist at the U.S. Federal Communication Commission, is Robert A. Bandeen Professor of Economics at the Fuqua School of Business at Duke University.