Technische Universität Dresden
DREWAG-Lehrstuhl für Energiewirtschaft (EE^2)

Lecture Note 6

Armstrong, M., Cowan , S., Vickers J. (1994): Chapters 3

Please answer the following questions:

1. How is a natural monopoly defined? Given the cost function c(q) = 4*q + 10; does this market imply that a natural monopoly exists? Why?

2. How does the objective problem the regulator tries to solve looks under Ramsey pricing? What does the Ramsey pricing rule imply for a multi-product company active in a high and low elasticity market?

3. Given the similarities of Ramsey and Two Part Tariffs, what does the introduction of an access charge imply for the price level of the usage charge?

4. Why is having a single constraint on an average price better than having a fixed price vector? Why are ideal price caps not observed in practice?

5. In which way do ideal price caps and regulation with fixed weights differ?

6. What is commensurable? What is considered to be the firms revenue R(Q)? What is third- and second-degree price discrimination?

7. What are the effects on relative prices under third-degree price discrimination compared to Ramsey pricing?

8. Under a Yardstick regime, what does perfect correlation and no correlation of firms costs functions imply for the regulatory price setting? Does the splitting up of large monopolies into several local ones to apply yardstick regulation improve the outcome?

9. Give a short comparison on the Vogelsang-Frinsinger Mechanism, Tariff Basket Regulation and Average Revenue Regulation (with respect to assumptions regarding the firm’s behaviour, the periodic price cap, welfare effects and problems).

10. Why is price regulation superior to transfers in the light of regulatory capture?