

# Competition Policy and Strategy

## Assignment 6

### **Exercise 6.1 (Market Definition)**

Explain why it is necessary to define the relevant market in competition policy. What is meant by the competitive forces of demand substitutability, supply substitutability and potential competition?

Hint: Use the “Commission Notice on the definition of relevant market for the purpose of Community competition law“ (97/C 372/03), ([https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A31997Y1209\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A31997Y1209(01)))

### **Exercise 6.2 (SSNIP-Test)**

Describe the process of an SSNIP test (“hypothetical monopolist test“) in key points. What is the conceptual idea behind this type of market definition?

### **Exercise 6.3 (Critical Sales Loss)**

Consider a company that manufactures and sells T-shirts over the Internet. The company sells  $q = 1000$  of T-shirts at a price of  $p = 10$  with a variable average cost of  $c = 6$ .

- a) Explain verbally the concept of “critical sales loss” and critical price elasticity.
- b) Show that the (absolute) Critical Sales Loss for a 5%, 10%, and 15% price increase is 111 T-shirts, 200 T-shirts, and 273 T-shirts, respectively.
- c) Discuss what data should be available to define the relevant market in this case.