

f46 Cumulative
Inelasticities?

Criticism of Fellner's solution of bilateral monop. case:

It is well inspired. But is solution only in most abstract formal sense. In fact, I doubt that "all or nothing" bargains are common. What we have in fact is a clear clash of interests, to be settled perhaps by protracted holding out. Fellner's solutions apply only where one or the other monopolist is the entire master, or they have combined. But most cases are in between, they are jockeying for position. The process of jockeying means reduced production, encourages vertical integration. *over*

Furthermore, he did not make anything of the cumulation of inelasticities shown. Add two or three more in the vertical array of transactions, and the marg. revenue of the first would be very low -- all stemming from the original slightly falling demand curve. Thus we get bottlenecks.

Inelasticity is further increased, going backwards, because each supplier gives only a small bit of the final product. On the other hand, this means that the MR to the seller is not derived 100% from the MR to the buyer, since the makings of the entire product are not being transferred. This may not be very important, however.

Sometime work on this more.

Thoughts on the bilateral situation:

Difficult element is that p & q solution for both buyer and seller must be same. But their mr & mc do not meet at same p & q.

This solved by observing that the mr for seller is drawn on assumption that we are running down the "mr to buyer" line as demand curve; while the "mc to buyer" drawn on ass. that we are running up the "mc to ~~buyer~~ seller" line as supply curve. Hence these two marginal curves cannot co-exist, and reason for two solutions is clear.

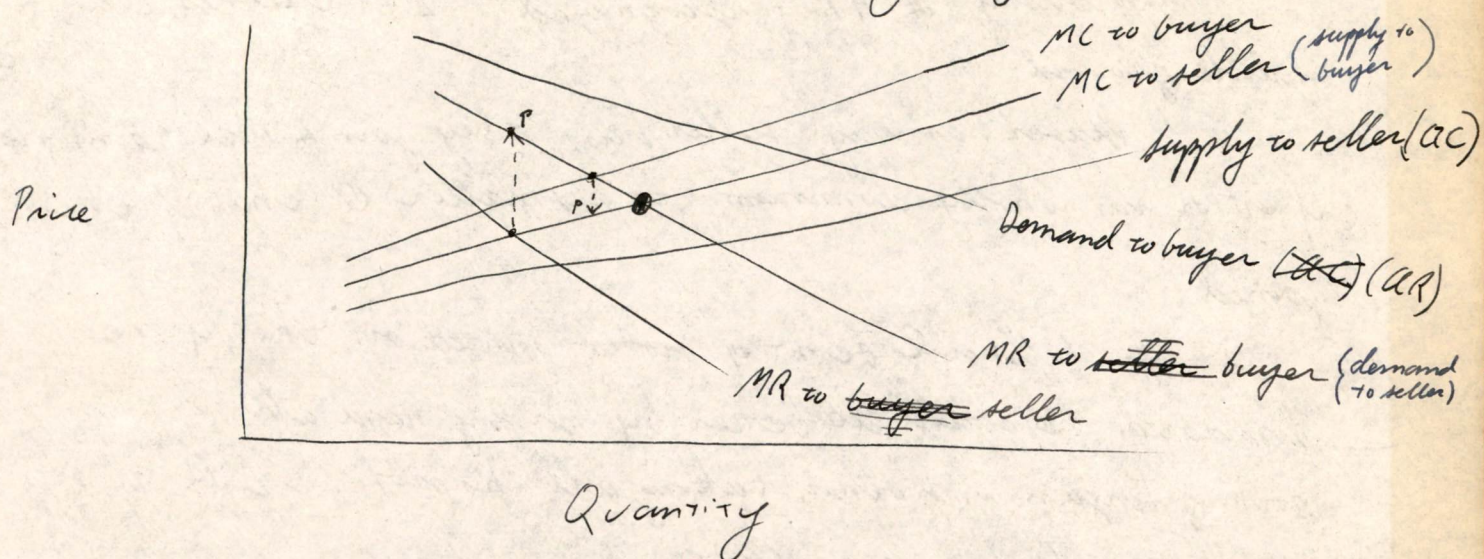
If a price is set on the mr to buyer line, this means we are now proceeding from seller's viewpoint, seller is dominant, and mc to buyer line is irrelevant. and v.v.

So be ready to reproduce Fellner's ideas -- just draw 6 lines, 3 going up, 3 going down, and label.

Fellner more realistic, historically -- for when one group dominates,
get more production than when 2 fighting

But if one is dominant, that really means other ~~may~~ probably has no
mnp position --- tho it might mean he had one, but no h.o. power.

Note, & elaboration, implication here that inelasticities in series cumulate. This could be very significant.



Fellner says never have two lower cases, for, if did, market would ΔQ with all-or-nothing bargains. So move to 3d situation, most output.

So output is set at right limit in either event, & price, hence distrib. between buyer & seller, is alone what is det. by relative bargaining power of buyer & seller.

Haley, SCE, p. 22-4, on bilateral Monop.

Previously, they recognized 2 extremes, & a middle ground:

Buyer has way; seller has; they join, & max joint profit. If either was wholly dominant, got a smaller Q than if they joined.

But Fellner & Leontief ~~proved~~ pointed out that if one dominated, he could do better by driving hard all-or-nothing bargain with other, taking all his profit, & ΔQ -- so get same Q in each case.

(One thing making big firms more efficient is petty monop. Makes vertical integration very useful. You do not practise monop on yourself.)

(For if you get a group of monopolies & monopsonies in series, would get practically no production. -- inelasticities of s & d would quickly cumulate in the series, stalling production completely -- work this out this summer.)

When buyer dominates, (i.e., when seller has no monopoly power at all) he sets Q where his $MR =$ his MC . His MC is a line above MC of seller.
(The monopolist is here an. to be a monopsonist, too, & the monopsonist a monopolist)

When seller dominates, sets Q where his MR (line below MR of buyer) $=$ his MC .

When they combine, they forget the 2 double derivative curves, & Q is where MC of seller $= MR$ of buyer
over

Consider that bilateral
inquiries could come to
terms that include
cutting out outsiders.

→ Smooth's notes. Nothing beyond mine, save brief reference to biological
disorder, re which the latter improvements do not apply, older
indeterminate model more accurate.

Fellner, Comp Among Few

p. 311 to end, Collective Bargaining

#1 possibility: Unions have no effect

All ~~higher~~ hired labor, even unorganized, has a rough sort of organization, & bargaining is roughly with a group. So he wonders if unions have actually raised wages much. -- since relative share of labor in NI is so constant.

Hence have downward rigidity of wages despite even w/o unions (in existing industries. Hence people must go into new ones, services, etc.)

He has limits within which wages det. by barg. power; but secular drift of limits themselves is determined mainly by productivity. Unionization, in initial impact, improves bargaining power. But after that, ~~move~~ within limits, stay fixed w/ limits.

#2 poss.: m wage rise, real not.

He thinks unlikely -- prices won't adjust completely (if at all)

#3. M & real wage rise, "share" of labor not.

Stability in % share of labor probly because, if it rose, stimulus to labor saving innovations, & v.v.

#4. M , real, & share all rise, but even so, output not reduced.

Output would fall were it not for uncertainty but, due to that, it ~~stays same~~ is imponderable. Consumer demand more stable, hence less uncertainty.

Italian gilds in layers,
harder to evade.

Layers of monop. bad - vertical ones -
Market sharing also bad & inefficient.

~~Here the~~

2 reasons why merger concerns
are good.

This a powerful argument vs idea
you must fight monop. with monop.

→ Under market sharing, costs are higher than under outright monop.

Hence superiority of letting one monop. take over, over mkt sharing.

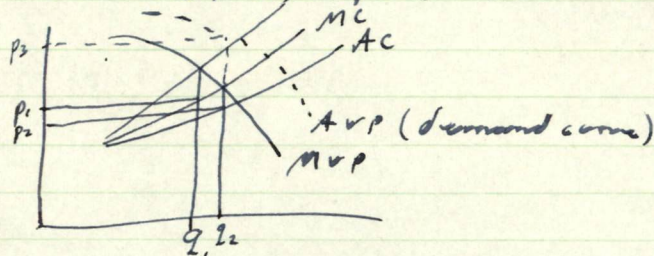
He will not only use existing facilities best, but find economies of scale.

Thus superiority of Gm. over French type of monop.

— In boom, get merger, for efficiency; in bust, control, defensive, NRA-ish, for restriction.
v. Pribram, Carl, AGE, May '35

Bilateral Monop. ^{Italy} M.O.

Virtual demand curve of monop. (his MVP curve). MC & AC of seller to this monop.



If seller acts as comp, sets fixed price, part. el., seller's income is his s curve, is your s curve too (no discrim).

You as monop. take marg. to MC, this your marg. outlay curve, $p_1 q_1$.

If you could discr., MC would be part. discr. curve, $q_2 p_2$ all or nothing. This is if monop. has his way. P_2 would be average price

Now look at it other way - from seller's view

Give him el. ^{demand?} supply at fixed p . Draw mr curve under MVP. Equate your mc to mr , try to sell at that price. Get 2 extremes, get solution between, is old fashioned. Leonard & fellow changed it. How ^{very simple & straightforward}

Seller might discr. Would end up some q as discr. buyer would, some solution.

If 2 layers of monop, ~~can~~ if one dominates w/o discr., don't max joint profits. If get part. discr. either way, get max. jt. profits - all going to one who discriminates.

But at q_2 , price may vary between p_2 & p_3

Eng. never had any
vertical integration, so was
besieged with perymonops,
cumulative inelasticities --
hypothesis.

If inelasticities do cumulate,
is another cumulative effect.

In a complex production, many individuals
take ~~cut~~ cut, so no one can lower price
much by cutting his share much. So all are
faced with inelastic demand -- so don't cut.

This a big problem whenever prices fall.

U.S. Steel, A Stat study of the elasticity of demand for steel.

Conclude that demand is inelastic, c. .3 or .4. (but don't say over how much time, which is very important. Right at first no one will know what to do with the extra steel, but if drop is permanent they soon will. USS really is avoiding what should be the major issue: what would happen if steel price became permanently lower?)

They have a good point that if steel were lower but other prices didn't fall, demand would be inelastic, since finished product prices reflect other things than steel.

They are wrong that steel's durability means inelastic demand. True, present production supplies only a small part of the total use of steel. But if steel price dropped the uses of steel would increase, ^{would be inc. in steel.} and the whole increase would come from new production. Durability means that if they raise the price, or if deflation occurs, that existing steel will be substituted for new steel. i.e. demand is very elastic upwards. But this probably means it is also elastic downwards.--new steel will be substituted for old if cheaper, & new uses will develop.

Steel has many uses. This should make demand elastic I say.

Prices are different in various areas.

Hidden non-price competition occurs, thru "concessions". These must not become generally known or competitors will lower their prices. See Sweezy, Demand under conditions of oligopoly", JPE, Aug '39.

They conclude that variations in steel price ~~are~~ have, in period studied, been a minor cause of variation in output, changes in industrial production being main cause, &/or industrial profits. But then they admit that this is just because the price of steel didn't change much! Now what the hell good is that?

They want to show that volume of steel taken cannot be regulated by changing the price to meet changing conditions elsewhere. Not at all clear to me where they get the elasticities they claim, or if they are valid at all. But it is doubtless true, as they are striving to show, that stabilizing steel production would not stabilize all other production.

Basically, I don't see how their measurement of elasticity means anything anyway because they aren't asking how much would output change if price changed; but rather how much did output change, granting price changes and everything else, as they actually happened.

Well, they take a series of years and set up an equation saying steel production equals a constant plus constants times various variables. Then they find constants which will fit the facts. Now I presume it is quite a trick to find one that will fit the facts each year. They mention the method of least squares. But there must be more to it than this, for they have one equation for an included time period that differs from that for the inclusive period.

What they are probably doing is figuring in these equns each year the changes that occurred each year, in production, & all the things they claimed influenced it. So the things with the biggest coefficients influenced it least. But I can't help thinking it is a matter of judgment which things you give the big coefficients to. Not knowing the method of least squares it is hard to say.

over

Elasticity they define as the partial derivative of quantity with respect to price times price over quantity. i.e. the relative change in quantity over relative change in output, assuming the other items in the eqn, i.e. industrial production, profits, supernumerary income, and time. (?)

If you take price in any year, & other indices in any year, & mult. times the coefficients developed, presumably you get the industrial output index for that year, and that's how they developed the thing. Or maybe you get change in output? No. Then they say elasticity equals price times its coefficient divided by the index of industrial output which is developed from the equation. So presumably the coefficient of p represents the partial derivative dx/dp (x being quantity), for aside from them we have price on top & quantity on ~~bottom~~om.