AN FTC GUIDE TO

SINGLE FIRM CONDUCT

PREDATORY PRICING

CAN PRICES EVER BE "TOO LOW?" The short answer is yes, but not very often. Generally, low prices benefit consumers. Consumers are harmed only if below-cost pricing allows a dominant competitor to knock its rivals out of the market and then raise prices to above-market levels for a substantial time. A firm's independent decision to reduce prices to a level below its own costs does not necessarily injure competition, and, in fact, may simply reflect particularly vigorous competition. Instances of a large firm using low prices to drive smaller competitors out of the market in hopes of raising prices after they leave are rare. This strategy can only be successful if the short-run losses from pricing below cost will be made up for by much higher prices over a longer period of time after competitors leave the market. Although the FTC examines claims of predatory pricing carefully, courts, including the Supreme Court, have been skeptical of such claims.

Q: THE GAS STATION DOWN THE STREET OFFERS A DISCOUNT PROGRAM THAT GIVES MEMBERS CENTS OFF EVERY GALLON PURCHASED. I CAN'T MATCH THOSE PRICES BECAUSE THEY ARE BELOW MY COSTS. IF I TRY TO COMPETE AT THOSE PRICES, I WILL GO OUT OF BUSINESS. ISN'T THIS ILLEGAL?

A: Pricing below a competitor's costs occurs in many competitive markets and generally does not violate the antitrust laws. Sometimes the low-pricing firm is simply more efficient. Pricing below your own costs is also not a violation of the law unless it is part of a strategy to eliminate competitors, and when that strategy has a dangerous probability of creating a monopoly for the discounting firm so that it can raise prices far into the future and recoup its losses. In markets with a large number of sellers, such as gasoline retailing, it is unlikely that one company could price below cost long enough to drive out a significant number of rivals and attain a dominant position.

ILLEGAL MONOPOLIZATION MAY INCLUDE SUCH THINGS AS EXCLUSIVE SUPPLY OR PURCHASE AGREEMENTS, TYING THE SALE OF TWO PRODUCTS, PREDATORY PRICING, AND REFUSAL TO DEAL.