



DANISH COMPETITION AND CONSUMER AUTHORITY

November 10, 2011

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Comments on: The Market for Deceptive Products

Pros and Cons of Consumer Protection

Where and how are markets shrouded?

- » Which markets and characteristics are prime suspects ?
- » Which are the root causes of shrouding (complexity or ignorance) ?
- » How is shrouding detected ?

Example: Mobile Phone Subscriptions

- » U.S. regulators are worried about “bill shock”
- » There is innovation in subscriptions, e.g. introducing dial-up fees combined with flat rates. Wasteful or due to new entry?
- » Signs that some innovations benefits consumers, e.g., limits on downloading speed rather than overcharges.
- » Even if shrouded, is it socially wasteful?: Subscriptions are often bundled with new, more advanced phones that benefits consumers. Seems to be intense competition on the bundle. Wasteful?

The dynamics of shrouded markets

- » Can the market correct shrouding:
 - » through entry and/or breakdown of collusion
 - » through innovation of unshrouded goods/services
 - » learning by consumers
- » Or is shrouding persistent:
 - » Through innovation of possibly negative social value additions

Behavioural Economics Explanations?

- » Core assumptions are motivated by micro observations
 - » Firms selling slightly differentiated products spend large resources to compete for costumers
 - » Most consumers does not know loan fees or key mortgage features and incur avoidable fees
 - » Consumers may ex-ante underestimate additional fees
- » Behavioural economics may offer additional explanations:
 - » Hyperbolic discounting, framing



What to do?



How is shrouding most effectively combatted?

» Through consumer policy:

» information disclosure, e.g., displaying of information, Mydata from the UK

» introduction of transparent standards, e.g., APR

» reducing costs of search and switching; but how, apart from above?

How is shrouding most effectively combatted?

- » Through competition policy:
 - » deregulation supporting entry into shrouded markets
 - » price regulation, e.g. on roaming charges, cap on interest rates?
 - » antitrust (e.g. measures against dominant abuse of tying/bundling)

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→ **What's more effective?**

Conclusions

- » Inspiring paper that formalises consumer deception and points to industries where we should look for it.
- » Highlights that both competition and consumer policies are important for market efficiency.
- » Effective remedies may be hard to find
- » We can use the insights in our daily work.



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Thank you for your attention

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