

Klick
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Exam
Summer 2014

You may use your casebook, notes, and commercial outlines in the completion of this exam, but you may not confer with anyone else about it during the period June 21- June 23. You have 24 hours to complete the exam starting once you download it, but it must be submitted by 11:59 pm on June 23. Each question (1, 2, and 3) is equally weighted subject to your choice in question 4. Good luck.

1. In 2013, Josh Harris purchased the New Jersey Devils of the National Hockey League (NHL). Harris is also the owner of the Philadelphia 76ers of the National Basketball Association (NBA). The Devils play in the Prudential Center in Newark, NJ, which is less than 90 miles from the Wells Fargo Center, where the Philadelphia 76ers play (note that the Philadelphia Flyers, of the NHL, also play in the Wells Fargo Center and compete in the same division as the New Jersey Devils). The NBA season runs from October to June. The NHL season also runs from October to June. There have been similar over-lapping ownership structures in the past (e.g., Ed Snider at one time owned the 76ers while he owned the Flyers).
 - a. Describe the potential competitive risks that may arise out of this kind of cross-sport ownership.

The degree of the competitive risk depends upon the cross-price elasticity between professional hockey and professional basketball. At some level, it's all entertainment but that's a pretty broadly defined market. The main question is whether fans substitute between basketball and hockey and the answer may be different depending on whether we look at attendance at live games, television viewership, or merchandise marketing. If fans substitute between hockey and basketball, an individual owning teams in both the NBA and the NHL might have the ability to raise prices for both sets of goods (ticket prices and ancillary goods sold at the arena such as parking/concessions/etc, fees charged to television networks to air the games, prices of jerseys/hats/etc). In a national market, this may not be so problematic, but all of these markets likely have a large local component (people will only travel so far to attend a game, many games are only aired on local cable networks, most merchandising is local in nature with a few exceptions such as the NY Yankees, LA Lakers, etc) which raises the possibility that prices could be raised in this scenario. People may be willing to travel between Newark and Philadelphia, which might constrain the prices for Devils and 76ers tickets. Local cable sports channels in Philadelphia and New Jersey may be willing to bid on television contracts. People in both places may be interested in buying merchandise for either team. If the teams are owned by different entities, each may cut prices to try to entice consumers to substitute between the Devils and the 76ers. The fact that the seasons for the two sports overlap may make this even more likely. While consumers might substitute going to a baseball game in July in favor of attending a basketball game in November, it seems plausible that such substitution is even more likely for simultaneous games. While a television station might be less willing to pay for material to televise in November if it has already purchased material to televise in July, it seems even more likely that this substitution is stronger when the material to be aired happens at the same time.

- b. How should regulatory authorities analyze these arrangements (include a discussion of the evidence that would be relevant to the analysis)?

Although this substitution appears plausible, it is not certain. Team allegiances may hinder substitution, and/or hockey fans might not enjoy basketball and vice versa. However, the more plausible the potential for substitution, regulatory authorities presumably should consider scrutinizing these arrangements more. While joint ownership of baseball and basketball teams might not rise to the level where empirical investigation is warranted (due to the non-overlap of the seasons as discussed above, although exceptions might exist such as joint ownership of the Yankees and Lakers), a situation like this might be worth analyzing.

In terms of evidence, one could calculate the cross price elasticity between hockey and basketball tickets and merchandise or for television contracts. One could examine the correlation between hockey and basketball viewership rates, perhaps with a particular focus on what happens when the sports' games compete head to head. All of these analyses would be probative, though even more reliable and relevant analyses may be in order. That is, there could be large geographical variation in the degree to which these sports substitute, leading one to particularly scrutinize data regarding the Devils and 76ers, including cross price elasticities and the relationship between television viewership of the two teams. One could also pay particular attention to what happened in the past when there has been joint ownership (such as the Ed Snider situation noted above), making adjustments for differences in distance between the teams (i.e., we may presume that any substitution between hockey and basketball in the exact same location will be greater than the situation here where there is a travel difference of as much as 90 miles).

- c. Putting aside their regulatory treatment, how do you suppose the leagues themselves view individuals owning franchises in multiple sports from a profit perspective?

We would generally presume that the league prefer less competition to more and, thus, to that end, these arrangements may be favored. That said, to the extent that part of what team owners do is to cultivate long term fans of their sport, having split interests between sports could reduce investments aimed at cultivating this fandom.

2. A number of universities with high profile sports teams will require individuals wishing to purchase season tickets for those teams to also either donate money to the university. In other cases, a university will require the individuals to purchase season tickets for one or more of the school's less popular sports.
 - a. Are these arrangements problematic from an antitrust law perspective?

Product tying arrangements do draw some scrutiny under US antitrust law. The general analysis of these arrangements focuses on determining whether the two markets are actually separate markets and whether the producer of the non-tied good has market power. If the producer of the non-tied good does not have market power, it has no ability to extract surplus from consumers. If the producer does have market power, it can already extract its rents through the pricing of the non-tied good. The scenario where problems arise is where the producer of the non-tied good has market power and the market for the tied good includes individuals who want the tied good but not the non-tied good. In that instance, the producer might be able to leverage its market power in the market for the non-tied good to gain power in the market for the tied good.

- b. How might the analysis differ depending in the following hypothetical scenarios:

- i. The University of Alabama, which is located in an area where there are no other options for attending major college or professional athletics, requires individuals wishing to buy football season tickets to buy basketball season tickets as well.

By assumption here, Alabama does have market power in football (and maybe basketball as well), but there is no market Alabama is foreclosing. That is, this scenario is not conceptually different from simply charging more for football tickets, which it could do directly and attain the same profits. It is likely the case here that this case could be resolved without much further analysis given the unlikelihood that this arrangement makes consumers worse off than they would be in a world where Alabama doesn't require the tying but simply charges more for football tickets.

- ii. The University of Southern California (USC), which is historically a college football powerhouse, requires individuals wishing to purchase season tickets to purchase basketball (a sports where USC has had much less success and has less of a fanbase) tickets as well. Note that there are few other options for football in the Los Angeles area given the lack of a professional team and the fact that UCLA has never had much football success. However, options for basketball in Los Angeles abound (with 2 NBA teams as well as the fact that UCLA is historically among the top college basketball programs in the nation).

Presumably USC does have market power here in football. In principle, if the tie leads people to switch from attending UCLA basketball games to attending USC basketball games, causing UCLA basketball to drop out of the market, consumers would be worse off. That said, the likelihood of UCLA dropping basketball due to the substitution of individuals who are both UCLA basketball fans and USC football fans to watching USC basketball games is low. Nonetheless, it is not impossible, perhaps suggesting a full blown rule of reason analysis is required.

- iii. Duke men's basketball (a very popular college team) requires individuals wishing to purchase season tickets to purchase tickets for the women's basketball team as well. Note that Duke is located in close proximity to a number of other very popular men's basketball teams (e.g., University of North Carolina) and, with few exceptions (namely the University of Connecticut and the University of Tennessee), women's basketball does not draw many spectators anywhere in the nation.

It is questionable whether Duke men's basketball has market power given the alternatives in the market. Further, as stated in the question, there are few women's basketball fans in general. Both of these indicate that the tie is not going to hurt consumers. It is unlikely that a full rule of reason analysis is required here.

3. Some firms have price matching guarantees. That is, if a consumer provides evidence that a competitor firm is offering the same product for a lower price, the firm with the guarantee will match (or, in some cases, match and provide a bonus discount) the competitor's price. In what ways might such guarantees improve consumer welfare? In what ways might they harm consumer welfare?

In principle, such guarantees lower consumer search costs as they might lead to a convergence of prices. If that convergence of prices is toward marginal cost (as would likely be the case if the number of firms is large), consumers are better off. However, such guarantees could be used to facilitate collusion in that consumers become the monitors for the collusive arrangement and the

bonus discount serves as a punishment for defection from the collusive agreement. Such a situation is likely to be more plausible if the number of firms is low.

4. Choose one of questions 1, 2, or 3 (inclusive of subparts) above to count double or choose to have each question count the same (i.e., multiply your point total for each question by 4/3). If your choice is not clearly noted, you will automatically lose 25% of the available points on the exam.