Monopoly market model

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MONOPOLY MARKET MODEL The monopoly market model structure undermines the economic model of perfect competition. From a regulatory perspective, monopoly markets are viewed as detrimental to consumer choice due to the monopolist’s product preventing market entry to other competitors (Tucker 227). Additionally, the monopoly market model includes the following characteristics:

1) single seller;

2) a unique product; and

3) impossible entry to the market (Tucker 227).

In contrast to the perfect competition model, the monopoly market model generally prevents product substitutability and results in the monopolist being the market (Tucker 227). Monopolies tend to fall foul of the regulatory system and there are strict rules regarding “ unlawful monopolies”. However, the legal regulation of monopolies can create conflict with innovation and intellectual property protection and Jones and Sufrin highlight the changes in the telecommunications sector and the multimedia market as a prime example of this and they comment that this market comprises part of a “ new economy”, which:

“ Now encompasses high technology industries…. However, the inherent nature of these new market spaces is the rapid pace of technological change, the creation and exploitation of intellectual property rights, the need for complementary products to work together, and a high degree of technical complexity” (Jones and Sufrin 55).

This conflict between innovation and the regulation on market monopolies is evident by the high profile litigation involving Microsoft, which has been in

troubled in the US under the Sherman Act. Additionally, Microsoft was found to be in breach of antitrust laws and subjected to the highest fine imposed by the EU competition regulatory authorities for abuse of dominant position. The background to the EU case against Microsoft was triggered by an initial complaint by Novell in 1993 in respect of Microsoft's licensing requirements. Novell argued that Microsoft's licensing practices regarding tying and bundling were anti-competitive in preventing competitor access to the market. Furthermore, Novell argued that the licensing practices and royalty requirements resulted in a royalty payment for every computer that was sold by a Microsoft operating system supplier, irrespective of whether the computer included the Windows operating system.

Microsoft negotiated a settlement in 1994, which led to a change in some licensing practices. However, in 1998 the spotlight was back on Microsoft again as Sun Microsystems complained about Microsoft's restricted disclosure in respect of the Windows NT interfaces. This triggered increased exposure to Microsoft's use of its position as market leader and the EU began to investigate Microsoft's integration of streaming media technologies with Windows (McCullagh).

After investigation, the EU determined that Microsoft had abused its dominant position through supply limitation and predatory pricing and in the 2003 preliminary decision imposed an order requiring Microsoft to offer Windows without Windows Media Player and disclose all information to enabling competitors to ensure that their software was compatible with Windows servers and desktops. Furthermore, in 2004 the EU imposed a fine on Microsoft for the sum of $794 million, which in addition to existing

penalties also imposed an obligation on Microsoft to disclose server information and produce a Windows version without Media Player within 120 days.

As a result of the 2003 Judgment, Microsoft released Windows XP, which was an operating system without the Media Player. Additionally, Microsoft released the source code to the Windows Server 2003 to comply with the server requirements of the ruling and appealed the case. The Commission felt that Microsoft hadn't complied with its disclosure obligations under the 2003 ruling and imposed a further fun of $448. 58 million with a threat to increase the fine to $4. 81 million per day if failure to comply continued. Furthermore, Microsoft lost the appeal in 2007 and in addition to the fine was required to pay 80% of the European Commission's legal costs. As a result of the decision Microsoft reduced its patent licensing royalties.

Therefore in summary, the monopoly market model undermines the perfect competition paradigm. Through innovation and developing new technologies Microsoft's monopoly developed naturally and resulted in limiting supply and predatory pricing. The European Commission and US regulatory authority's concerns over consumer choice and the royalty requirements imposed by Microsoft resulted in the company receiving the highest ever fine for breaching antitrust rules on grounds of abuse of market position.

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