

Anti-trust atari vs nintendo



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As a child I was fascinated by technology, I had a Tandy computer and my brothers shared a Nintendo gaming system. I lived the gaming system war first hand! Another family member had an old Atari 5600 which he lost interest in after playing with the Nintendo, mostly because there were no “cool” games available for that system like Nintendo. The Nintendo Entertainment system (NES) hit the scene in 1985 actually reviving the home gaming industry, and never looked back; innovation seems to be the name of game.

So, when I researched this particular case, it all started to make sense as to why the Atari seem to just fall off the face of the earth regarding gaming consoles. Further I understand how as a consumer I should be concerned with who was looking out for me when it came to the price and quality of these cartridges. I can remember my parents purchasing a new game and when we got it home it did not always play, we did the illustrious blowing into the cartridge to no avail.

In hindsight I wonder were the games cranked out so fast that quality suffered, were other Nintendo gamers having the same issue, did Nintendo know all about it? Back in the late 80's the allegations by Tengen and its parent company, Atari Games, claims that Nintendo has been unnaturally controlling the supply of games through the use of a lock-out chip. In response Nintendo contends that the lock-out chip ensures each game bought will be of the highest quality.

As a consumer these question become very important, given that antitrust laws are designed to protect the buyer and ensure competition, so did

Nintendo actually violate antitrust laws? Nintendo Constructed another Barrier In 1989 Katsuya Nakagawa the founder of NES was granted a patent for the infamous lock-out system, which goes through a series of check using signals for comparisons, if the signals stop or fail to match, the game would stop.

Nintendo claimed this lockout system was copyright protection for their games, nevertheless Nintendo cartridges only worked on the Nintendo Entertainment system. This meant NES could pretty much dictate to the industry how they wanted things to be run. In 1988 everything changed when Atari “ reverse engineered” the lock out device and began creating and distributing “ Nintendo compatible” games, at the same time Atari was suing Nintendo claims the lockout device and the way Nintendo was doing business with licensing was a violation of antitrust laws.

In addition, a United States congressman suggested that the Justice Department investigate Nintendo’s practices for potential antitrust violations. Nintendo in turn sued Tengen which is Atari’s subsidiary, declaring violations of the Lanham Act, breach of contract, unfair competition, and patent infringement. Nintendo has justified the licensing practices and the use of a closed system by reminding the court of the collapse of the prior video gaming market, “ It was the only way we could assure that there would be consistent, quality software.

We made a choice and it turns out that our choice was the correct one, to achieve the kind of success that we have. ” A decision was rendered in Nintendo’s favor, but that in the end will the consumer suffer? Nintendo’s in

different markets The court sided with Nintendo so they didn't think anything was wrong with operating in a "closed system", having a patent on the Lockout device, and lastly the court supported NES's licensing practices.

How could this be, Economist favor a competitive market over a monopoly because they believe a monopoly is only good for the manufacturer and not society. Nintendo is considered a monopoly because at the time they didn't have any competitors. This meant they could raise the price of cartridges and consoles without losing sales to opponents; of course they would sell fewer units because some customers couldn't afford, but they could also sell more cartridges and gaming consoles at a lower price, either way there would be a profit due to no adversaries.

In a monopoly the firm would want to get the most money for their product and will not make a sale that decrease profit, so the marginal revenue from the sale of these cartridges and consoles must exceed the marginal cost of making them. For example if NES marginal cost for 2rd, 3rd and 4th cartridges made were equal to \$5, then Nintendo would not make a 5th sale because it would cost \$5 to make but would cost \$3.50 to sell losing 1.50 on that 5th sale which is not profitable. When a firm reduce output until marginal revenue and marginal cost are equal then we know a Monopoly is present.

Similarly Nintendo would be forced to follow the market for pricing of cartridges because they could not make any additional sales if their marginal cost in making the cartridge goes over the cost received when selling the cartridge, in a competitive market. For example if the marginal cost for

making one Nintendo cartridge was \$5 and the sales price was \$3 then Nintendo would be forced to reassess how they are doing business because this model reflects a \$2 loss. On the other hand if it cost 5 bucks to make a cartridge and it sells for \$6.25 that's a \$1.5 profit for each sale, so as long as market price is around the same as marginal cost, and no one supplier can raise market price then a competitive market is present.

Conclusion In the end the district court could not find facts adequate enough to support Atari's allegations. Nintendo did prove that Atari's rabbit system was actually an unauthorized copy of their lockout system, so I guess that means Nintendo continues to monopolize the market, but this is not true, as with any free market innovation makes someone else's invention obsolete or at the very least introduce competition.

By 1991 Nintendo no longer seized the video game market. The Sega Genesis was far more superior in speed and graphic because it was a 16-bit console, it was also marketed to an older crowd. Nintendo didn't launch its 16 bit console until the next year, but by that time Sega had been able gain traction in the gaming market. The age of the eight bit Nintendo was ending, while video game console competition was introduced. It was the end of an era!