

Economics assignment



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Through the new adoption of the new leniency policy in 2002 by the European Commission, more companies are willing to admit to participating in cartel activities. One of the companies is ABA. The revelation of this illegal activity has caused it to be a case where largest set of fines to be ever imposed in a cartel. 11 groups of companies were revealed to have been participating in a cartel for gas insulated switchgear projects between 1988 and 2004. The participating companies re: ABA, Lastly, Arrive, Fuji Electric, Hitachi Japan AY Power Systems, Mediumistic Electric Corporation, Schneider, Siemens, Toshiba and VA Tech.

Since ABA is the first company that reveals the illegal activity, it is granted for a full immunity under the new leniency policy. However, the rest were fined to a total of and Siemens was fined ?-396, 562, 500, the largest ever fine imposed to a single company for a single cartel infringement. These companies have engaged in a cartel through bids rigging for projects and contracts, fixed prices, project monopolies and market shares monopoly and exchange of commercially important and confidential messages and information.

Economic analysis (Explain the relevant economics behind the issues - theories and uses of welfare analysis) The first issue that would be discussed is the reason why ABA would be willing to forwardly reveal the cartel even without the suspicious of the European Commission. This is due to the new leniency policy adopted in 2002. Previously, the first company that exposes the cartel and provide evidence to its activities would still be unsure of its consequence as they might still be fined in accordance to its 'decisive' evidence ND its involvement.

However, the revised leniency policy has reassured these companies that those who first admitted to cartel would not be penalized and be Economics Assignment By Jessica-Ling admit to the cartel to avoid the fines. However, one question remains unanswered. Why would they expose the cartel if there isn't any suspicion or doubts castes from the European Commission? By exposing the cartel, not only breaks the relationship between the companies, they will not be able to enjoy the high profits and advantages anymore as well, which will be elaborated in the next section.

One of the reasons could be due to the game theory. Game theory is the study of an interactive decision-making. The outcome for each individual is arrived based on what each of them assumed of the other players' actions. For this situation, a strategy concept of Nash Equilibrium would be the best to use to describe the reason that brought ABA forward in exposing the cartel. Nash Equilibrium is a best-reply function of an individual to the players' Nash Equilibrium strategy, with the assumption that no players would have the incentive to deviate its strategy.

For the ease of diagram referencing, ABA Company will be termed as company A and the rest of the companies will be termed as company B in the game theory explanation. Company A Continue cartel Expose cartel Company B Ratio is based on (Company A, company B) Authority decision (Explain the reasoning for authority decision and any defense offered by firms) Conclusion (Was the correct decision reached? Explain why the case was investigated 0 what evidence was there that the firms' actions were anti-competitive and where firms accused of wrong-doings, what defense did they offer)