Problem 1

Answer: Yes

To answer this question, we're going to apply the ideas explained in the lecture titled "Judo Economics/Niche Market". Since British Gas has a monopoly, its market share is 100%. Then the market size of British Gas is $x = 50,000$, which corresponds to the number of units of electricity sold daily. Moreover, the price this firm charges for a single unit is $p_H = 6$. London Power charges a lower price: $p_L = 4$. We know that, due to this price being lower, all consumers in the Greater London area will switch to London Power. As a consequence, the market share for this company will be 50%. In other words, its market size will be $x_E = 25,000$.
As we know, if the incumbent allows the potential entrant to enter the market, then the incumbent's loss will be $p_H x_E$. In this particular case, this corresponds to a loss of GBP 150,000. However, if British Gas decides to attack London Power by lowering its price to p_L, then British Gas will lose an amount given by $(p_H - p_L)x$. This is equivalent to GBP 100,000. Therefore, the incumbent has more to lose by accepting the entrant into the market. This means that for British Gas it's better to attack London Power.

Problem 2

Answer: 8

First of all, since we were told to assume that the interest rate is zero, it's not necessary to discount future profits. In other words, we can simply sum all the profits.
We begin by considering period 1. During this period, the incumbent could earn a profit of \$3 million. However, as a result of its pre-emption strategy, this firm ends up making a profit of \$2 million. We assume this strategy is successful, i.e., it manages to keep the potential entrant out of the market. To make sure the entrant will not reconsider its choice in the near future, the incumbent will keep operating in accordance with its pre-emption strategy. Consequently, the incumbent will also earn a profit of \$2 million in the three remaining periods. Therefore, the total profit will be \$8 million.

Problem 3

Answer:
▷ Brand loyalty
▷ Control over essential resources by incumbent
▷ Experience curve effects
▷ Rationing by governments

Problem 4

Answer: Vodafone stays out of the market

To answer this question, we apply backward induction. The first sub-game we need to consider corresponds to the following situation:
▷ Vodafone enters the market;
▷ Telefónica decides to retaliate;
▷ Vodafone needs to decide whether to stay or exit the market.
By comparing payoffs, we conclude that Vodafone should exit the market. This is true even when this company implements a commitment strategy.
The next sub-game we need to analyze is the following:
▷ Vodafone enters the market;
▷ Telefónica needs to decide whether to retaliate or not.
We already know that, if Telefónica retaliates, then Vodafone will exit the market. Then, from the incumbent's perspective, the choice is between a profit of \$5 million (no retaliation) and a profit of \$7 million (retaliation). Clearly, it's better to retaliate. Therefore, if Vodafone enters the market, then this firm will be driven out of the

market by Telefónica. In this case, the entrant's loss is $2 million.
Finally, consider Vodafone's choice to enter the market. If this company doesn't enter, then there will be no profit but also no loss. On the other hand, there will be a loss in case this firm enters the market. Consequently, Vodafone decides to stay out.

Problem 5

Answer:
▷ Commitment
▷ Judo Economics
▷ Value Chain Reconfiguration

Problem 6

Answer:
▷ . . . there are many buyers that each represent a small share of the market's overall revenues.
▷ . . . there is a low degree of competition within the market.
▷ . . . suppliers have little bargaining power.

Problem 7

Answer:
▷ Kroger adds a bakery and a butcher section to its supermarkets.
▷ Kroger starts building more supermarkets in the area.

Problem 8

Answer:
▷ . . . the position of the incumbent within the industry.
▷ . . . the nature of the industry.

Problem 9

Answer:
▷ Limit pricing works in presence of incomplete information only.
▷ Limit pricing needs to be implemented before the market entry of a potential competitor.

Problem 10

Answer: Predatory Pricing Strategy