Behavioral Economics and Consumer Protection

Neoclassical economic theory assumes that people perfectly optimize each decision as if they had perfect information, ideal incentives, and plenty of time. But countless studies have proven that assumption false. Consumers have systematic biases that lead them to act in different ways than this perfect economic model predicts. Firms can exploit these behavioral biases to gain more market power than what would be possible if consumers were not impatient, incompletely informed, and susceptible to defaults, among others. For example, technology companies often argue that they are constrained in raising prices, because customers can easily switch providers: “competition is only a click away.” But this claim ignores a large empirical literature showing how customers really act. While reading this module, consider how behavioral economics should affect antitrust issues such as market definition, switching costs, and tying.

Reading

Required reading


Recommended Reading

Commission Decision of 24 May 2004 relating to a proceeding pursuant to Article 82 of the EC Treaty and Article 54 of the EEA Agreement against Microsoft Corporation (Case COMP/C-3/37.792 — Microsoft)


Background Reading


