ECON 321, Assignment 18: Vickers, Competition Policy and Property Rights

1. Read the introductory section.

2. Read section 1. I will go over this model in class.

3. Carefully read section 2., and focus on section 2.2.

4. Note that x is the "Poisson arrival rate," which is to say that it is the probability of innovation occurring. That's why it costs more to choose a higher x, it's like investing in a bigger or better research department.

5. Graph the payoffs of both firms as functions of λ. Use the quadratic cases given by (7) and set $v = 2$.

6. Then make a similar graph for equation (8), again with $v = 2$.

7. Read the rest of the article, and think about what these graphs might say about the Microsoft case and other cases involving technological change and licensing.