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BERTRAND COMPETITION WITH AN ASYMMETRIC NO-DISCRIMINATION CONSTRAINT*

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Regulators and competition authorities often prevent firms with significant market power, or dominant firms, from practicing price discrimination. The goal of such an asymmetric no-discrimination constraint is to encourage entry and serve consumers' interests. This constraint prohibits the firm with significant market power from practicing both behaviour-based price discrimination within the competitive segment and third-degree price discrimination across the monopolistic and competitive segments. We find that this constraint hinders entry and reduces welfare when the monopolistic segment is small.

I. INTRODUCTION

This paper analyses an oligopoly with a price discrimination constraint on only one firm. We label this as an asymmetric no-discrimination constraint. An asymmetric no-discrimination constraint occurs in practice and is typically imposed on a firm with significant market power (regulatory context) or a dominant firm (competition law context).

In a regulatory context such no-discrimination constraints are often imposed on former state monopolists. The objective is to encourage entry after liberalisation, by prohibiting selective rebates by the incumbent for customers that switched to entrants. Another objective is the protection of certain groups of customers that still do not have a choice after liberalisa-

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