The Exercise of Market Power in Laboratory Experiments

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Summary: One of the lessons that can be learned from laboratory experiments is that market institutions matter; until recently, elements of market structure were thought to be of little importance in some laboratory market institutions. The approach taken in this article is not to analyze institutional and structural factors separately since market power is jointly determined by both. Two definitions of market power are offered here; one of these formalizes the DOJ merger-guidelines definition, and the other is game theoretic. These definitions can be loosely summarized: unilateral market power exists if a trader can profitably deviate from a vector of strategies that generates a competitive equilibrium, and equilibrium market power exists when the price that results in a Nash equilibrium is above the perfectly competitive price determined by the intersection of supply and demand. The implications of these definitions for antitrust analysis are discussed.