

MARKETS AND REGULATION*

Understanding the performance of markets and the effectiveness of economic regulation is a constant preoccupation among policy makers and IO economists. This section contains three papers that look at the performance of very different markets and regulations. In the first paper Paul Joskow gives an overview on the experience with privatization, restructuring and regulatory reform in electricity sectors around the world. He discusses the improvements achieved by these reforms but also several performance problems that have been detected. He argues that the restructuring of electricity markets is still a “work in progress” and that consumers can benefit greatly if reforms are implemented according to sound economic principles and applying the lessons learned from recent experiences.

In the second paper Matti Liski and Juan-Pablo Montero revisit the equilibrium properties of a market for a non-renewable resource where there is a large supplier and a fringe of competitive suppliers. They explain that the very possibility of signing forward contracts (which is absent in previous literature) reduces the large supplier’s ability to move the market. In fact, they show that in a three period setting the supplier can not exercise market power whatsoever. They argue, however, that in a more general context the leader may build some reputation and be able move the market.

In the third paper, José Miguel Sánchez and Jessica Coria look at the performance of public utility regulation in Chile with particular attention to the water sector. They first explain the hypothetical-efficient-firm approach used by regulators to benchmark utilities and set its regulated prices. They then describe some of the advantages of this method over a pure cost-based or price-cap regulation but identify several problems with the method as well. They see as one of its main shortcomings the construction of a hypothetical firm with no memory (i.e., a firm that starts from scratch in every regulatory period). Recommendations for improvement are also provided.

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