



THEME 2

MARKET FORCES AND THE ALLOCATIVE ROLE OF THE GOVERNMENT

OVERVIEW THEME 2

MARKET FORCES AND THE ALLOCATIVE ROLE OF THE GOVERNMENT

- Price mechanism in non-competitive markets: monopoly, oligopoly and monopolistic competition 
- Government action against market failures: externalities, asymmetric information and market power 
- Public goods

CHAPTER 2: GOVERNMENT MEASURES AGAINST MARKET FAILURES: EXTERNALITIES, ASYMMETRIC INFORMATION AND MARKET POWER

1. External effects

a. What are external effects?

(see pre-teaching and separate slides)

b. Free market forces and optimal wealth (classical economics)

c. Government measures (neoclassical economics)

- taxes, subsidies, minimum and maximum prices

- wealth impact



CHAPTER 2: GOVERNMENT MEASURES AGAINST MARKET FAILURES: EXTERNALITIES, ASYMMETRIC INFORMATION AND MARKET POWER

2. Asymmetric info

- a. What is asymmetric info?**
- b. Government measures**

3. Market power

- a. What is market power?**
- b. Government measures**

CHAPTER 2: GOVERNMENT MEASURES AGAINST MARKET FAILURES: EXTERNALITIES, ASYMMETRIC INFORMATION AND MARKET POWER

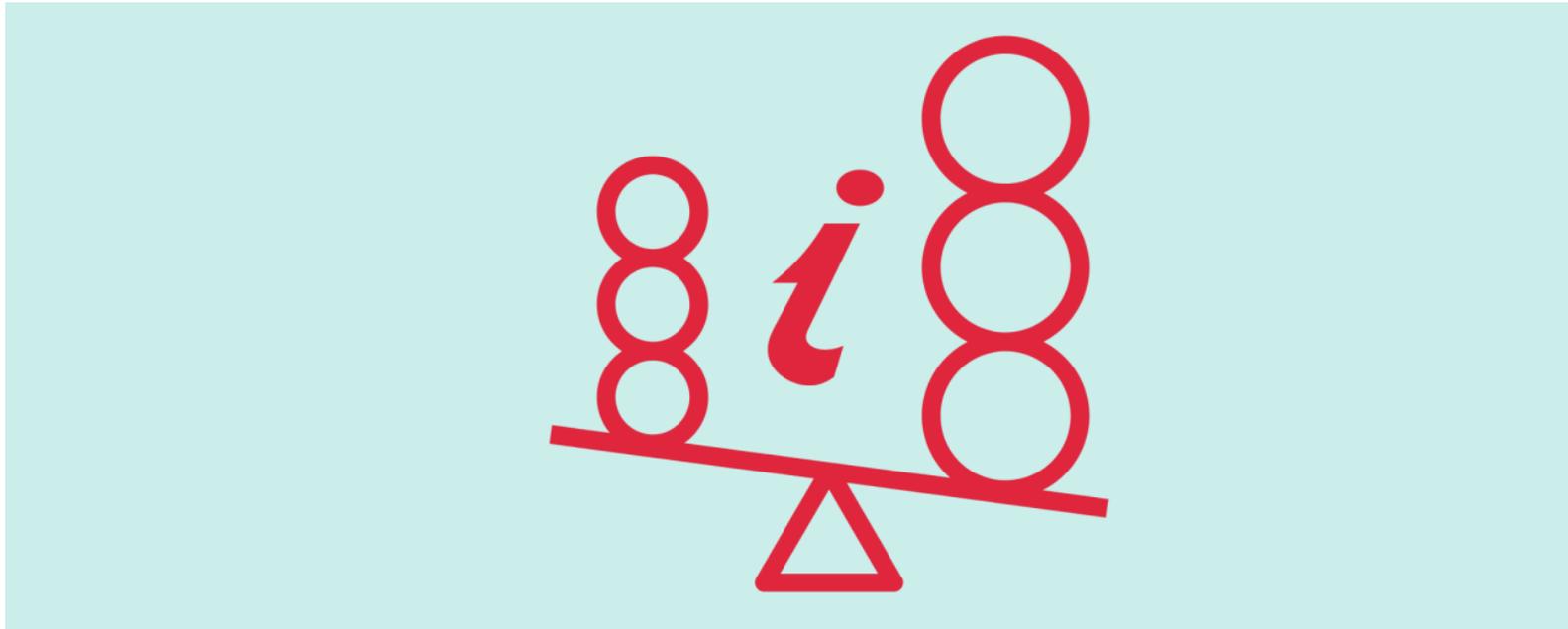
- 4. Other government measures**
 - a. Tradable licenses and patents**
 - b. Social and moral standards**
- 5. Cases: examples of government measures at local, regional, national and European level critically approached**

2. ASYMMETRIC INFO



2.a WHAT IS ASYMMETRIC INFO?

Asymmetric information in economics means that one party in an economic transaction has more or better information than the other party.



This difference in information can lead to unfair or inefficient outcomes in the market.

There are two main forms of asymmetric information:

1 Adverse selection:

This happens before a transaction takes place. The party with less information does not know whether it is dealing with a "good" or "bad" counterparty.

Example: when taking out medical insurance, insurers do not know how healthy a customer really is.

People who expect to need a lot of care are more likely to take out comprehensive insurance than healthy people. This can lead to higher costs for the insurer.

2 Moral hazard:

This happens after the transaction has taken place. The party with more information may start to behave differently, because the other party bears the consequences.

Example: someone who has a car insured against damage, can be less drive carefully, because the insurance pays anyway in the event of an accident.



An example: "The Market for Lemons":

"The Market for Lemons" is a famous economic theory by George Akerlof (who was awarded the Nobel Prize for it in 2001), and it is a classic example of asymmetric information.

It is about the market for used cars. In English, a "lemon" is a colloquial term for a bad or defective car.

The problem:

Sellers know if their car is a good car or a "lemon".

Buyers don't know this — they only see the looks, the price, etc., but not the quality.

What happens then?

Because buyers can't tell the difference between good and bad cars

they want to pay less on average (a kind of average price).

But good cars are undervalued, and their owners don't want to sell them for a low price.

The result: good cars disappear from the market, because sellers do not get enough.

Only "lemons" remain — in other words: the market collapses or only delivers poor quality.

Examples outside of cars?

Yes, this also plays a role in:

Insurance: People with high risk want to be insured, insurers cannot always estimate this properly.

Job market: Employers don't know how good an applicant really is.

Online marketplaces: You don't know if a seller is trustworthy.

Stock market: You don't know if a share really has the value indicated by the price.

2.b GOVERNMENT MEASURES

The government's solution is mainly to provide regulation, and this in terms of information, guarantees, certifications.

Examples:

HACCP in the food industry or CE mark for electronic products.

What does the government do?

The government sets standards and requires producers to demonstrate that their product meets certain safety requirements.

Goal: To ensure that consumers know that a product is safe and of good quality, even if they cannot judge it themselves.

Hazard Analysis
Critical Control
Points



Disclosure obligation for financial products

Mandatory information leaflets for investments or mortgages

What does the government do?

Banks and insurers must provide clear, understandable information about risks, costs and conditions.

Goal: To prevent consumers from buying financial products that they do not understand or that do not fit their situation.



Don't take unnecessary risks.
Read essential investor information.

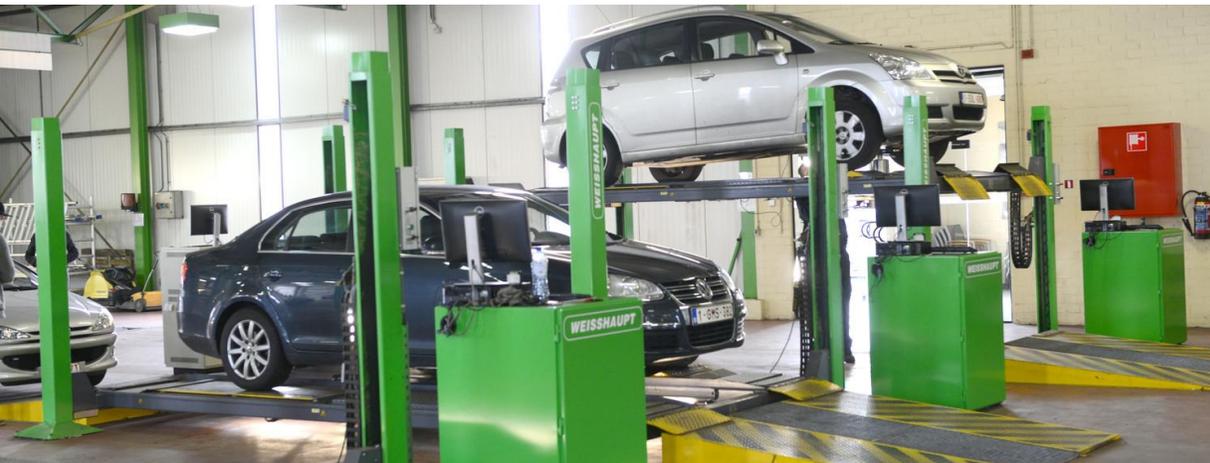
Car inspection

Mandatory vehicle inspection

What does the government do?

The government requires owners to have their car periodically inspected for safety and the environment.

Goal: To ensure that buyers and other road users can be confident that cars meet minimum requirements, even if they do not know the technical condition.



And how does that work?

Car-Pass is actually a gigantic database with the "identity" of all vehicles registered in our country.

The mileage and maintenance history on the Car-Pass come from a wide variety of sources: garages, body repairers, road assistance, tyre centres, etc. They are legally obliged to provide the Car-Pass with the current **mileage** and the description of the **work carried out** when they are working on the vehicle. Even when a car or van goes to the **technical inspection**, the inspection centres communicate the odometer reading to Car-Pass.

Car manufacturers are obliged to provide an odometer reading of their registered in Belgium.

There is no similar legal obligation in any other European country.

These odometer readings and work carried out are stored per chassis number in our database.

Each vehicle thus builds up a mileage and maintenance history.



3. MARKET POWER

**European Commission
fines Meta hundreds of
millions for violations of
digital rules**

**Millions of euros fine for car
manufacturers due to cartel
formation**

3.a WHAT IS MARKET POWER?

Market power or abuse of a dominant position occurs when a dominant undertaking or group of undertakings engages in acts restricting competition, which will prevent or reduce competition in a market.

Examples that we have already discussed: **monopolies and oligopolies**. **Cartels** are prevalent in the latter market.

A cartel agreement is an agreement between companies that prevents competition. This is usually done in terms of price. Due to cartel formation, companies no longer do their best to offer the best possible product for a fair price. Cartel formation harms consumers and honest competitors.

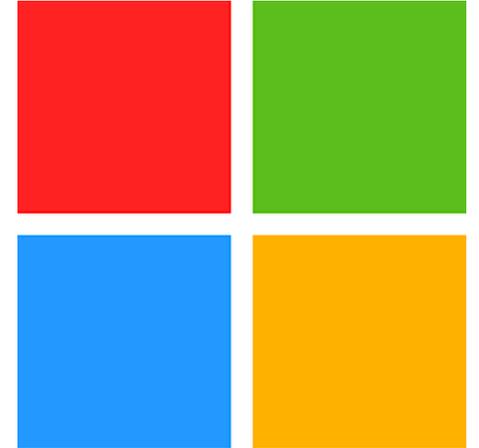
In a **monopolistic competition**, market power is limited.

Examples:

Microsoft

What happened?

Microsoft bundled its web browser (Internet Explorer) with Windows, giving other browsers such as Netscape hardly a chance.



Google (Alphabet Inc)

What happened?

Google would give its own services (such as Google Shopping or Google Maps) a preferential position in the search results, at the expense of competitors.

Proximus

What happened?

Proximus (formerly Belgacom) has been accused in the past of competition in the broadband market.

They would charge unreasonably low wholesale prices for internet access, As a result, alternative providers could hardly make a profit.



NS (Nederlandse Spoorwegen)

What happened?

The NS was accused of abusing its dominant position in the tendering of public transport in Limburg. They are said to have bid below cost and unfairly disadvantaged competitors through subsidiaries.

Cartel care products

What happened?

Supermarket companies and producers of personal care products have formed a cartel to keep prices high and even raise them regularly. No fewer than 18 companies participated.

They were able to go about their business undisturbed for years, until Colgate-Palmolive confessed and informed the competition watchdog. As a reward, this whistleblower will not be fined.



Cartel trucks

What happened?

MAN, Volvo/Renault, Daimler, Iveco and DAF together account for about nine out of every ten medium and heavy trucks built in Europe. The Commission found that these manufacturers had made illegal agreements for the entire European market about price increases, the timing for the introduction of new emission technology and the passing on of those costs to customers. MAN revealed the existence of the cartel and escaped a fine.



3.b GOVERNMENT MEASURES

Both the Belgian government and the European Union have strong mechanisms in place to address market dominance and abuse of market power.

In Belgium: via the Belgian Competition Authority (BCA)

What does the BCA do?

The Belgian Competition Authority is responsible for:

- Detecting and punishing cartels (agreements between companies)**
- Tackling abuse of dominant position**
- Supervision of mergers and acquisitions that may restrict competition.**

How do they combat abuse of market power?

- Initiate investigations into complaints or signs of abuse
- Impose fines of up to 10% of a company's global turnover
- Impose behavioural obligations (e.g. give mandatory access to competitors)
- Block mergers or allow them only under conditions



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Een mededingingsprobleem melden?



Clementieverzoek indienen?



Contacteer ons

In Europe: through the European Commission

What is the EU doing?

The European Commission's Directorate-General for Competition (DG COMP) monitors competition rules across the EU.



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DIRECTORATE-GENERAL | COMP

Competition

This Commission department is responsible for EU policy on competition and for enforcing EU competition rules, in cooperation with national competition authorities.

How does the EU tackle market power?

- Large investigations at multinationals (such as Google, Amazon, Apple)
- Billions in fines for violations
- Imposing obligations such as splitting services or adjusting algorithms
- New laws, such as the Digital Markets Act (DMA) – aimed at Big Tech

Cooperation between Belgium and the EU

The BCA and the European Commission work closely together: they share information, they coordinate investigations.

