

Microsoft as a Monopoly?

(Source: Economist, January 30th, 1999).

(www.microsoft.com)

Prof. Richard Schmalensee (MIT) recently argued in Court that Microsoft was not monopoly pricing in the software market.

Microsoft supplies nearly the entire PC market with an operating system.

If price set by Microsoft is not monopoly price, then what else might it do?

1. Could wish to extend its market and rake in greater profits in the future.
2. Limit-pricing: deterring other competitors from entering the market.

Schmalensee's testimony based on Lerner's index of monopoly power: $(P-MC)/P = 1/E$. Assumes $MC=0$!

What do we know about competitive firms? Price set to $P=MC$. Price should almost be zero!!

Schmalensee works out monopoly price for software based on the price of hardware. Thinks that monopoly price should be: \$800-\$2000!!