

OPINION

MARKETS AND THEIR BOUNDARIES

Work done by the Department of Economics at Stellenbosch University tries to expand the understanding of competition in markets. It employs novel statistical techniques to help solve legal problems in South Africa and elsewhere and contributes to a more competitive and healthy economy.

Economists view markets as a collection of sellers and buyers trading in particular goods or services. While this definition appears straightforward, it is quite difficult to decide exactly which sellers compete. For example, a property market might refer to a particular geographic location, such as Stellenbosch. However, even in such a town there are many property markets catering for anything from student housing to upmarket houses on the other end of the scale.

Deciding which properties belong in which markets can be quite difficult, and represents a challenge frequently faced by economists working in competition cases. Defining the market is often critical to the outcome of such a case.

Competition laws aim to prevent large firms from abusing their power to set prices or to merge with one another to increase their power without some benefit for society.

Economists assist competition authorities to understand how particular industries work, and what the likely effects of particular forms of business behaviour might be. The definition of the 'relevant market' for the case at hand stands central to the analysis that economists perform in competition cases. A market with fewer competitors is often considered to be less competitive, and therefore it is essential to understand the exact scope of the market.

Markets form the basis of modern economies. It is within these spaces where individual and business decisions combine to produce outcomes that would be difficult to achieve using a centralised system.

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The concept of the 'market' is ubiquitous: we often talk about a 'market economy', the crisis in 'financial markets', or perhaps the 'state of the property market'. But what exactly is a market? In medieval times, the market would have been a physical place of commercial exchange. In a modern economy, however, most markets are notional: the stock market is not really located 'somewhere', even though the Johannesburg Stock Exchange (JSE) offices may be in Sandton.

ABOUT

