

# Improving the practice of network regulation in Australia

Prepared by Philip Williams for 2011 ACCC Reg Conf

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# Economists must contribute: #1

- An understanding of opportunity cost
- Costs can only be defined once: (i) the decision is defined; and (ii) the constraints are specified.
- That is, all costs are incremental costs.

## Economists must contribute #2

- What costs mean when applied to a network: (i) to build and operate the whole thing; (ii) to join one node (or group of nodes) to an existing network; or (iii) to use the network.
- Once a network has been created, the cost of the decision to use it will include only the incremental costs of that decision.
- TSLRIC involves a lot of averaging.

## Economists must contribute #3

- Analysis of multi-sided platforms must take all material interdependencies into account.
- Multi-sided platforms involve different kinds of user – each of whom benefits by interacting with users of the other kinds over a common platform.
- They cannot be analysed as one provider providing an input to another – as the RBA did when it argued the merchant service fees are too high compared with costs – or as the PC Inquiry Report on Gambling does when it sees there being a problem because IP law does not protect the IP (results of races) created by racing clubs.

# What economists must learn

- To read the law
- This is not hard – providing you can read
- Economists reports for regulators must fit within the framework of the law that the regulator has to administer.



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BRISBANE | MELBOURNE | SYDNEY

Frontier Economics Pty Ltd, 395 Collins Street, Melbourne, Vic 3000  
Tel. +61 (0)3 9620 4488 Fax. +61 (0)3 9620 4499 [www.frontier-economics.com](http://www.frontier-economics.com)