

Abstract

Diploma thesis: Regulation and its impact on the conduct of an undertaking

Regulation is a very large term that describes a wide scope of activities of the state and other entities that aim at channelling the activities of the undertakings in order to enhance competition and protect consumers and other third parties.

This paper analyses the economic and other rationale for regulating markets and describes techniques of regulation. Regulation mainly focuses on mitigating or removing market failures that are caused by a number of factors: existence of monopolies or natural monopolies, windfall profits, externalities, information inadequacy, unequal bargaining power, anticompetitive behaviour and predatory pricing, use of public goods or problems with continuity and availability of services. These market failures can be removed or mitigated by a number of different regulatory strategies that are chosen by the relevant state. The choice of regulatory strategy shall be based on a thorough regulatory impact assessment carried out before the implementation of the specific measure. Regulatory strategies can be grouped in the following regulation schemes: first of all, command and control regulation, the strictest type of regulation, under which the legislator and/or regulator impose a specific rule binding upon all the undertakings falling within the scope of the regulation and then eventually enforce such rule if not respected voluntarily by the undertaking. In addition, alternative regulatory strategies consisting in less onerous measures are, for example, incentive regulation, direct intervention, competition rules, tradable permits, contract regulation or disclosure regulation.

All these methods of intervention have impacts on the competition between the undertakings on the relevant market as well as on the

undertaking's pricing strategies and generally on the undertaking's behaviour towards consumers and other third parties. The paper describes and evaluates such impacts and provides also a brief overview of possible modifications of the current regulatory strategies in the future.