

The Hong Kong University of Science and Technology
Dept of Information Systems, Business Statistics and Operations Management
OM Seminar Announcement



Fairness Regulation of Prices in Competitive Markets
by
Mr. Xingyu FU
PhD candidate

Date : **8 Sep 2023 (Friday)**
Time : **10:30 – 11:30 AM**
Venue : **Room 6045, LSK Business Building**



Abstract: Problem Definition: The loyalty penalty refers to a pricing strategy where companies charge higher prices to loyal customers for exploitation while offering lower prices to non-loyal customers for attraction. To address this unfair business practice, various regulatory agencies, such as the CMA and FCA in the UK, have proposed or implemented regulations aimed at promoting fairness in pricing. In this study, we analyze the impact of such regulations on both firms and consumers. Methodology and Results: We develop a stylized model to investigate duopoly competition in two symmetric markets, where consumers exhibit loyalty to different firms in each market. The regulatory intervention mandates that the price difference between the two markets, set by each firm, must not exceed a certain threshold. Our analysis reveals an intriguing interaction between market competition and price fairness regulation. When competition is fierce, fairness regulation can alleviate cut-throat competition between firms, resulting in Pareto improvements compared to a scenario with no regulation. On the other hand, when competition is weak, fairness regulation can further enhance firms' existing monopoly power, potentially leading to collusive high prices that are detrimental to consumers and society. We also consider several extensions to enrich our findings, including fairness regulation on relative price discount, asymmetric markets, and a two-pronged policy involving both price gap and price cap. Policy and Managerial Implications: Collectively, our study offers in-depth insights for regulators, consumers, and the industry, shedding light on the potential economic ramifications of enacting price fairness regulations in competitive markets.

Bio: Xingyu Fu is a fourth-year PhD candidate in Operations Management at the ISOM Department at HKUST Business School, and he is supervised by Prof. Ying-Ju Chen, Prof. Guillermo Gallego, and Prof. Pin Gao. His research interests include socially responsible & sustainable operations, marketing-operations interface, and economics of AI. His papers are now under revision or published at leading business journals such as *Manufacturing & Service Operations Management*, *Naval Research Logistics*, and *Service Science*.

All interested are welcome!
Enquiries: Dept of ISOM