



- Types of regulation
  - o There are numerous ways to determine types of regulation, here we consider
    - Two major types
      - Government or market
    - Two major approaches
      - Ex ante or ex post
  - o And UNIDO's 2013 approach as it applies to developing nations (regulation in place of existing institutions)
  
- Ex-ante vs. ex post regulation
  - o Ex ante is mainly concerned with market structure that is the number of firms and level of market concentration, entry conditions and the degree of product differentiation
  - o Ex post regulation is concerned with market conduct – behaviours of a firm with respect to both its competitors and its customers
  
- Ex-ante
  - o Before the event
  - o Obligations imposed on businesses by regulatory authorities
  - o Involves strong market intervention by the regulator
  - o So as to not limit market forces, countries explicitly set out the prerequisites for ex-ante regulation in the regulatory framework
  - o Only deemed necessary if:

- Substantial barriers to market entry
  - No visible trend towards competition
  - Ex post interventions provided for in general competition law are unable to guarantee competitive structure
- Ex post
    - After the event
    - No explicit market intervention if performed
    - Regulator acts after violation has occurred
    - Refers to:
      - Anti trust (competition) and merger regulation
      - Certain actions of regulatory authorities such as arbitration and penalties
- Optimum Regulation
    - Combination of ex-ante and post ante actions
    - However some actors considering that ex-ante regulation creates undue market distortion
    - Combinations may lead to regulatory learning
    - Regulatory learning suggest that institutions can change themselves, but this tends to conflict with institutional theory
- Types of Regulation
    - Command and control
      - Imposing rules and standards backed up with criminal sanctions

Strengths	Weaknesses
Fixed performance standards backed up in law	Close relationship between regulator and business could lead to capture
Clear definition of unacceptable behaviours	Can be complex and legalistic
Seen as politically decisive	Defining acceptable standards can be difficult

- Self regulation
  - Organisation or association setting the rules which it monitors and enforces with its members (avoid or delay government action)

Strengths	Weaknesses
Can be well informed with high level of commitment form firms	Could be self serving/ undemocratic
Cheap for government	Legalism not necessarily avoided
Easy to change to fit circumstances	Weak enforcement/independent oversight difficult
Realistic standards	

- Incentives – based regulation

- The use of taxes or subsidies/ grants to encourage compliance

Strengths	Weaknesses
Low regulatory discretion	Rules may be complex and inflexible
Allows choice for regulatees	Assumes economic rationality – not always the best
Low enforcement costs	Difficult to predict impact
	Rewards polluters

- Market based controls
  - Channeling market forces to influence competition (permits)

Strengths	Weaknesses
Firms respond to market not bureaucrats	Uncertainties and transaction costs
Applicable across all sectors	Reliability of information
Flexibility	Needs healthy permit market
Low enforcement costs (dispute resolved by participants)	Can create barriers to entry

- Other:
  - Disclosure
  - Direct government controls
  - Rights and liabilities
  - Public compensation

	Strengths	Weaknesses
Direct Action	State can plan long term acceptable infrastructure	Costly, can involve contentious subsidies
Rights/ Liabilities Law	Low interventions	Costs to individuals, evidential and legal difficulties
Public Compensation	Firms aware of costs	Monitoring performance difficult

### Natural Monopoly

- A market controlled by one supplier is considered natural where economies associated with large scale production make it inefficient for more than one firm to operate, where per unit production costs decrease as the firm becomes larger
- Consequently, the largest firm in the industry is also the most efficient; it has the lowest cost per unit of output
- Governments forces to own or legislate
- In the late 1980's, natural monopoly theory was said to have been disproven in the wake of the free market economy
- Australia's reaction was: