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Complex econometric model of monopolization process evaluation

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Abstract

The research “Complex Econometric Model of Monopolization Process” gives wide description of monopolization process’s nature, foundation source, development procedure and actuality in the field of modern entrepreneurship, as well as evaluates its stimulated social losses and retrievable benefits. The main question of the aforementioned research is definition and quantitative analysis of monopolization process’s effects in the context of the Latvian mobile communication market, while constructing an empirical model of the researched dilemma with the use of international historical experience of monopoly formations standings. The current research uses a vast variety of monopolization evaluation ratios and their econometrical updates on companies that are involved in the study procedure in order to detect and numerically measure their market monopolizing potential, based on the implemented price policies.

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1. Introduction

With the vast development of the modern business and trade, numerous former unquestioned and unchallenged visions of the market functioning paradigms, mechanisms and conformity of natural laws are being transformed, reevaluated and analyzed from a different economic perspective.

Based on the classic A. Smith’s theory, J. M. Keynes alternative approach and works of P. Samuelson, economic research is developing further among with the entire society, causally following and quickly reacting to newly emerging social trends.

It states in “An Inquiry into the Nature and Causes of the Wealth of Nations” Book IV, Chapter VIII: “Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer.” Thus, the inventor of “invisible hand”

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concept underlines that no form of competition, regardless of its specifics and market conjuncture composition, is free from or can neglect the maximum level of consumption capacity, made available by the current demand. (Smith, 2002)

It is argued in „Foundations of Economic Analysis”: „Every good cause is worth some inefficiency.” Thus, it may be argued that for the sake of economic stability maintenance and social utility maximization, a shift from perfect or near – perfect competition can and, to some extent, should be made (Samuelson, 2012).

It is explained in “The General Theory of Employment, Interest, and Money”: “The difficulty lies not so much in developing new ideas as in escaping from old ones.” Consequentially, this undoubtedly widely respected author suggests the non – conventional approach to implementing new elements into the modern day economic theory while being able to take a fresh, innovative look at those seemingly common aspects of market interactions (Keynes, 2008).

Nevertheless, there is one particular existing field of economic evaluation that hadn’t seen any changes in the public opinion since the mid XIX century. It is still, as well as more than a hundred years before, being seen as concentration of “capitalism evil” that brings only losses and price increasing to all members of the society.

It is a legal equity, profiting from the position of absolute monopoly, so attractive and wanted by any actively functioning company, influencing all aspects of modern day economic processes, significantly changing the composition of any given market conjuncture and reshaping all forms of business conduction possibilities. The above mentioned position is being obtained in the process of monopolization – one of the most topical phenomena of both developed and developing economies of the current century, significantly rising in importance of full understanding within the context of the world financial crisis aftermath. The composing element of any national economy, namely, markedly involved companies are forced to adapt to the process of globalization through finding new, sometimes quite unorthodox ways of securing the conducted business profitability and liquidity, thus, consequentially increasing competition within any given market that frequently leads to market consolidation tendency increase, while excluding a large portion of inefficient companies from the market, leading to natural increasing of the industry monopolization level.

The goal of the current research, taking into consideration modern day economic challenges and above described tendencies, is to, with the use of analytical, comparatively – economical, coherently – logical and economic index analysis methodologies, conduct a full – scale study on the nature of monopolization process, detect its appearance sources, define the caused effect in modern economic systems, as well as analyze and evaluate the main monopolization influence factors that shape conduction of the process according to various industries market conjuncture specifics.

The hypothesis of the current research is as follows: modern day small open economies undergo a natural, consequentially – economic based and supported by internal competition, process of market consolidation, which leads to acceleration of individual monopoly power concentration in specified niches, especially seen in industries that are restricted from the effects of import due to their functioning specifics.

The current researches scientific study is defined as five structural industries of Latvian national economy, their market conjectures and specifics of competition conduction, as well as revealed monopolization trends and its development algorithm. A special focus of attention will be given to the mobile communication market as a system, naturally secured from macro – external competition such as import and international equity infiltration due to the regional specifics of providing telecommunication services.

The object of the current research is the Latvian Republic mobile communication market along with involved companies (Bite, Tele2 and LMT), their supplied services, pricing systems, management strategies, related additional products, empirical demand, supply and client loyalty in the specified market and the above given factor cluster influence on the process of monopolization within the framework of the evaluated industry.

The main goals of the current research are:

- Deepening the understanding of monopolization process essence.
- Defining the existence substantiations, causes and consequences of monopolization process.
- Defining the positive and negative consequences on monopolization process conduction in the modern day economic systems.
- Construct an empirical quantitative model that would allow to evaluate and conduct scientific study of monopolization process combining the main existing methodologies with innovative causally – coherent approach.

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