

Abstract: Predation and the Logic of the Average Variable Cost Test

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This paper seeks to sharpen the formulation of the average variable cost form of the widely-accepted test for predatory pricing proposed by Areeda and Turner. It is shown that average variable cost, the criterion usually used by the courts in carrying out the Areeda-Turner test, is actually more pertinent than the authors' preferred marginal-cost criterion, if the object is to prevent elimination of more efficient rivals. The paper also examines such issues as the pertinent time period for the cost calculation, the relevance of the test to combinations of outputs, and a number of issues that must be settled in carrying the test out in practice. On several of these matters it is concluded that current practice in use of the test requires sharpening or modification, and the nature of the appropriate modifications is described.