II. PREMISES AND ASSUMPTIONS OF THE CHICAGO SCHOOL’S CONCEPT OF COMPETITION

The premises and assumptions of the Chicago School were largely not products of the Chicago School but rather of neoclassical price theory. They are used by the Chicago School within the context of simple basic models of price theory (polypoly, monopoly) in order to deduce concrete policy recommendations. Therefore, these premises and assumptions underlying these models have to be discussed in order to evaluate the soundness of the policy implications. The following will deal with this.

1. RATIONALITY AND AUTONOMY OF ECONOMIC AGENTS

The representatives of the different schools of antitrust analysis take differing positions with regard to the question whether participants in the economic process (suppliers and consumers) act rationally. Posner views the Harvard School as assuming “that consumers are irrational and manipulable”. In contrast to this assumption, he emphasizes that “the Chicago theorist rejects this assumption as inconsistent with the premises of price theory”.¹ In doing so, he accepts the neoclassic premise of rational behavior of market participants. This assumption, however, is not unambiguously defined.

Furthermore, in addition to the assumption that consumers maximize utility as well as the assumption that suppliers maximize profits, further characteristics² have to be regarded, such as the assumption of autonomous behavior which means that consumers freely decide which goods and

services to purchase within the context of their budget constraints and their preferences (consumer sovereignty).\(^3\)

The representatives of other approaches to antitrust theory and policy also assume rational behavior of consumers and suppliers, but as a rule the assumption of bounded rationality employed by the behavioral sciences is used.\(^4\)

This bounded rationality is described by Herbert Simon:\(^5\)

The capacity of the human mind for formulating and solving complex problems is very small compared with the size of the problems whose solution is required for objectively rational behavior in the real world.

In comparison, the Chicago School uses the assumption of totally rational behavior in the sense that agents maximize utilities and profits, a position that we will look at more critically below.\(^6\)

The assumption of autonomous behavior has to be regarded as unrealistic since the preferences of consumers are influenced by external factors. Two arguments are relevant within this context:

- consumers' preferences and, therefore, the demand of the goods and services is influenced by the decisions of other consumers (external consumer effects);
- consumers' decisions are not totally rational because they are influenced by producers through advertising. This argument takes into consideration


\(^6\) An approach that tries to use the behavioral concept of rationality for antitrust theory is found in Zohlnhöfer, Werner, and Horst Greiffenberg, Neure Entwicklungen in der Wettbewerbstheorie: Die Berücksichtigung organisationsstruktureller Aspekte, in: Cox, Helmut, Uwe Jens and Kurt Markert (eds.), Handbuch des Wettbewerbs, München 1981, pp. 79 ff.