Tracing the Base: A Topographic Test to Detect Collusive Basing-Point Pricing*

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Abstract

After several decades of antitrust litigation and economic theory, opinions on the competitive nature of basing-point pricing vary. To some, this type of delivered pricing is typically applied in (imperfectly) competitive bulky homogenous goods markets. Others have pointed out that the pricing method is ideal to facilitate collusion. This paper proposes a topographic test to detect collusive basing-point pricing. The method recovers from consumer price-volume quotes the base-point locations from which these bids were calculated. By comparing the base-locations and the variance in their spread found with the locations of the suppliers, the test can discriminate between competitive and collusive basing-point pricing. The test requires a minimal amount of information (consumer and firm location, and price-volume bids), yet can deal with large data sets as well. Therefore, apart from confirming suspicion of collusive basing-point pricing in given cases, the test can also be used to screen industries that traditionally use delivered pricing systems for (clusters of) cartels. To that end, the paper develops a software. The search algorithm uses a measure, the CBP-index, high values of which are a tell-tale sign of collusion. A recursive approach to the data assures that the test is hard to beat by cartels using this otherwise elusive form of price-conspiracy.

Keywords: Basing-Point Pricing, Collusion, Detection, Location
JEL-codes: L41, K42, C12

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