

Competition, capture, and proportionate entry rules

Distinguish the author's pro-market objective from protection of incumbent firms. Investigate licensing, fixed compliance costs, tax structures, and intellectual-property barriers, then design open-access reforms with evidence-based safeguards.

2 lessons · approximately 5 hours, plus multi-day practice

How to use this workbook

Read the assigned manuscript first. This workbook contains accompanying teaching and invented cases, not a revision of the source. Attempt exercises before consulting the rubrics and explanations. Written work is self-assessed or discussed with a tutor; no secure examination, academic credit or certificate is implied. Use a clearly labelled fictional case when live practice or personal disclosure would be unsuitable. Links use the course's intended publication address; for offline review, open the supplied source PDF at the full-book page numbers shown.

- Define the source's pro-market, pro-business, and rent-seeking terms.
- Evaluate safety claims and licensing requirements proportionately.
- Calculate fixed-cost burdens and their limits.
- Analyse exclusivity incentives and follow-on entry.
- Operationalise four open-access reforms and fair transitions.

[Open the module and source reading links](#)

Lesson sequence

1. Detect entry barriers and regulatory capture
2. Open access without abandoning public protection

Detect entry barriers and regulatory capture

Allow approximately 75 minutes, plus any continuing activity.

Learning objectives

- Distinguish the book's pro-business and pro-market definitions.
- Explain rent-seeking without inferring it from every safety claim.
- Calculate how fixed compliance costs affect differently sized firms.

Assigned source readings

Chapter 18: Competition, Not Capture; I. The Rent-Seeking Reflex; II. The Guilds Return: Occupational Licensing; III. Regulatory Capture: The Moat of Complexity

Full-book PDF pages 232-235. Section links open the chapter at the relevant page.

Develop the argument

Separate existing firms from the competitive process

Chapter 18 defines “pro-business” as protecting the profitability of incumbent firms and “pro-market” as supporting competition, entry, and the possibility of failure. These are the book's deliberately sharp working definitions; ordinary speakers may use the terms differently. The analytical contribution is to distinguish the welfare of existing producers from the openness of the market. A measure can help a dominant firm while reducing consumer choice or blocking new suppliers. Conversely, a rule can impose real costs on incumbents while protecting consumers or correcting a market failure. Do not determine the public interest merely from which side publicly supports a proposal. Ask how the rule changes entry, conduct, prices, quality, and accountability, and compare those changes with its stated objective. Firms and government need not always be opponents or always be allies.

Rent-seeking concerns the route to reward

Section I contrasts earning profit through a better product with obtaining protected profit through political restrictions. Rent-seeking, in this framework, means spending resources to secure a transfer or privilege rather than creating additional value. The mousetrap example contrasts innovation with lobbying to exclude competitors. An industry's safety objection is therefore a signal to investigate, not proof that safety is fictional. The same proposal might reduce a real hazard and confer an incumbent advantage. Analyse those effects separately. Evidence might include whether requirements relate to the hazard, whether less restrictive alternatives work, who helped write the rule, and who is exempt. Motive can be difficult to establish; the design's consequences can still be evaluated. A criticism is stronger when it identifies an unnecessary restriction than when it merely asserts that every trade association acts in bad faith.

Licensing can screen competence or ration entry

Section II treats occupational licensing as an important barrier for people who possess skill but lack money for fees, tuition, and time out of work. The hair-braiding example argues that training unrelated to the service can impose cost without corresponding protection. Use it as the book's illustration, not a statement of current law in every jurisdiction. Requirements differ and change. A rigorous review begins with the risk to clients, the competence actually needed, the relevance of required training, and the availability of targeted certification, inspection, insurance, or disclosure. Some occupations may justify stringent preparation because mistakes have severe consequences. The course does not ask learners to practise without authorisation. It asks whether a proposed entry rule is proportionate, accessible, and supported by evidence rather than designed to reduce the number of competitors.

Fixed costs can become a moat

Section III explains how the same absolute compliance expense can weigh differently on a large firm and a small entrant. In the chapter's numerical illustration, one million against revenue of one hundred billion is 0.001 percent, while one million against five million is twenty percent. Revenue is not profit or available cash, so these ratios alone do not prove either firm's survival. They do reveal an asymmetry worth studying. Requirements can have fixed and variable components, and shared tools or proportionate procedures may reduce the fixed burden. Compare the cost with the benefit of the safeguard, including harms avoided. The chapter calls the resulting barrier a "regulatory moat." Use that label only after explaining why the rule excludes feasible challengers beyond what its public purpose requires, rather than treating any costly compliance as capture.

A safety audit with unequal overhead

Invented for this course.

An invented food-container standard requires a 120,000 annual audit. A large manufacturer earns 120 million in revenue; a startup earns 1.2 million. Both use the same low-risk material.

1. Compute audit-to-revenue ratios of 0.1% and 10%.
2. Identify the safety objective and determine which audit tasks actually reduce the relevant hazard.
3. Compare a common testing service or risk-based audit while preserving independently assessed safety outcomes.
4. Check whether an incumbent exemption or unnecessary specification explains the unequal entry burden.

Unequal proportional cost motivates scrutiny. It does not alone show that safety standards should be removed.

Practice and evidence

1. Test a licensing requirement

A fictional permit requires 1,000 training hours, but only 100 directly concern the proposed low-risk service. Evaluate reform without assuming the other hours are useless.

Deliverable: A risk-to-requirement matrix and a 350-word recommendation.

1. Identify possible client harms and relevant competencies.
2. Request evidence for the remaining training and compare targeted alternatives.
3. Specify how safety and access would be monitored after change.

Relevance · 2 points

Links each requirement to a specific risk or identifies missing justification.

Alternatives · 2 points

Compares less restrictive options while retaining genuine protection.

Evidence · 2 points

Makes the recommendation conditional on safety and access outcomes.

2. Measure the fixed-cost barrier

Use the invented container firms and audit expense. Add a shared testing service costing 12,000 per firm.

Deliverable: Four cost ratios and a 250-word assessment of what they show.

1. Compute original and shared-service ratios.
2. Explain the difference between revenue ratios and profit impact.
3. List the safety, capacity, and competition evidence needed before choosing the alternative.

Arithmetic · 2 points

Finds 0.1% and 10%, then 0.01% and 1%.

Interpretation · 2 points

Does not confuse sales with profit or infer bankruptcy from a ratio alone.

Purpose · 2 points

Compares burden reduction with demonstrated preservation of safety.

Reflection

How would you distinguish an inconvenient but useful safeguard from a rule that mainly protects incumbents?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. An industry supports a safety regulation. What follows?

- A. It must be captured.
- B. Its support establishes public benefit.
- C. Investigate hazard reduction, entry effects, design, and alternatives.
- D. Safety may never justify a rule.

2. A fixed 1m compliance cost is 20% of a startup's 5m revenue. What is justified?

- A. The burden is proportionally large, but profitability and survival require more information.
- B. The startup necessarily loses exactly 20% of profit.
- C. The large firm pays nothing.
- D. All regulation must be abolished.

3. In the book's definitions, which action is most clearly pro-market?

- A. Guaranteeing a leading firm's profits.
- B. Restricting entry to existing licence holders without a risk basis.
- C. Subsidising one company indefinitely because it is large.
- D. Removing an unsupported entry barrier while maintaining a relevant safety test.

Answer explanations

1. C — Investigate hazard reduction, entry effects, design, and alternatives.

Support is evidence about interests, not a complete verdict. The rule can have real benefits and exclusionary effects that require separate analysis.

2. A — The burden is proportionally large, but profitability and survival require more information.

The ratio describes revenue exposure. Costs, margins, financing, and benefits are needed for a broader conclusion.

3. D — Removing an unsupported entry barrier while maintaining a relevant safety test.

The book prioritises open competition with valid safeguards. Protecting a particular incumbent's profits is its contrasting pro-business category.

Open access without abandoning public protection

Allow approximately 75 minutes, plus any continuing activity.

Learning objectives

- Evaluate the chapter's old-money and intellectual-property claims.
- Compare four open-access reforms and their risks.
- Design entry reform that preserves safety, competition, and accountability.

Assigned source readings

IV. The "Anti-Rich" Policies That Protect the Rich; V. Intellectual Property as a Forever Monopoly; VI. The Solution: Open Access; VII. Conclusion: The Dangerous Life of the Open Market; The Lesson Line; Chapter 18 Notes:

Full-book PDF pages 235–238. Section links open the chapter at the relevant page.

Develop the argument

An anti-elite label does not settle who benefits

Section IV argues that heavy compliance can protect market leaders and that taxes on current income may impede new wealth accumulation differently from established assets. These are mechanisms to examine, not universal descriptions of every tax or regulation. Identify the actual base, rates, exemptions, financing choices, and effects on different households. Borrowing against assets is not free money: repayment, interest, collateral risk, and applicable rules matter. Do not convert the chapter's example into personal tax advice. Likewise, a market leader's stock price rising after a regulatory announcement could have more than one explanation. The book's useful challenge is to compare treatment of entrants and incumbents, including who can afford compliance. Its rhetorical contrast between old and new money cannot replace a complete distributional analysis or establish every wealthy person's behaviour.

Intellectual property contains a genuine design trade-off

Section V describes intellectual property as a bargain between temporary exclusivity and later public access. The author argues that term extensions and overlapping patents can turn a creation incentive into an entry barrier. Treat "forever monopoly" as polemical framing, not a literal statement that every patent or copyright lasts forever. A review must identify the actual right, jurisdiction, term, scope, and conduct. Exclusive rights can encourage investment and disclosure; excessive breadth, strategic overlap, or unjustified extension may deter follow-on innovation. The relevant comparison asks what protection is needed for the claimed incentive and what it costs users and later creators. The chapter does not provide enough evidence to settle every sector's optimum. Learners should compare concrete designs and counterfactuals, avoiding both the claim that all exclusivity is predatory and the claim that every restriction is necessary for innovation.

Four open-access proposals must be operationalised

The source's alternatives are permissionless innovation, sunset clauses, licence portability and reduction, and simple rules. Permissionless entry can lower barriers while still holding firms accountable for harm; high-risk activities require careful safeguards. Sunset review can remove obsolete provisions, but automatic expiry without evaluation could remove useful protection. Portability can prevent repeated training costs where competence is genuinely equivalent, while differing hazards may require justified additional preparation. Simplicity can reduce specialist dependence, but a short ambiguous rule may increase discretion. For each proposal, specify the problem, authority, timetable, evidence, and appeal route. This preserves the chapter's distinction between open access and anarchy. Competition also needs conditions such as informed choice and feasible entry; merely calling a sector competitive does not establish that all harms will be corrected quickly by a new supplier.

Protect workers' opportunity without guaranteeing every firm

The conclusion distinguishes protecting an existing job at a particular firm from protecting people's opportunity to offer valuable work. Closing an inefficient or unsafe firm can have substantial transition costs for workers and communities; recognising those costs does not require protecting the incumbent indefinitely. Compare retraining, portable benefits, temporary support, and relocation or local redevelopment constraints where relevant, rather than treating displacement as trivial. The chapter ends with an empty printed Notes heading, but mapped footnotes supply Smith, Stigler, Kleiner, and Crain and Crain. Their summaries motivate investigation and remain unverified here. A strong final recommendation reports public benefits, entry effects, transition burdens, and what would reverse the conclusion. The assessment rewards proportional safeguards and evidence, not the largest possible reduction in rules or automatic agreement with the author's claim that competition always outperforms regulation.

Portable certification for repair technicians

Invented for this course.

An invented region requires technicians moving between towns to repeat an identical basic certification. One town also has a genuinely different high-voltage system.

1. Separate equivalent basic competence from the additional local hazard.
2. Recognise the common credential while retaining a targeted module for the distinct system.
3. Publish fees, assessment criteria, appeals, and a review date.
4. Track safety incidents, entry costs, and service availability to check both access and protection.

Portability can lower unnecessary barriers without assuming that all jurisdictions have identical risks.

Practice and evidence

1. Redesign an entry rule

Choose a fictional low-risk service and apply all four open-access proposals from the chapter.

Deliverable: A 500-word reform brief with safeguards, responsible actors, and evaluation.

1. Identify unnecessary prior permissions and any genuine hazards.
2. Design review dates, portability, and intelligible requirements.
3. Specify what evidence would justify retaining or restoring a restriction.

Coverage · 2 points

Uses all four proposals concretely rather than repeating their names.

Proportionality · 2 points

Retains protection tied to actual risks and addresses accountability.

Reversibility · 2 points

Defines evidence, review, and correction mechanisms.

2. Assess an exclusivity extension

A fictional software standard owner requests an additional exclusivity period, claiming it is necessary to finance a major improvement.

Deliverable: A 350-word decision memo with creation and entry arguments.

1. Specify the claimed incentive and evidence of costs.
2. Identify effects on users and follow-on innovators.
3. Compare a narrower or shorter protection and explain your conditional decision.

Trade-off · 2 points

Recognises both incentive benefits and competition costs.

Evidence · 2 points

Asks for a credible counterfactual rather than accepting lobbying assertions.

Precision · 2 points

Avoids treating every right as perpetual or recommending unlawful use.

Reflection

What transition support could protect people while still allowing a well-connected incumbent to lose its privileged position?

Formative self-check

Choose an answer before looking at the answer key. These questions are open practice, not a secure assessment.

1. Which implementation best fits the chapter's open-access objective?

- A. Remove every safety rule immediately.

- B. Keep all old rules because they once had a purpose.
- C. Lower unnecessary entry costs while retaining proportionate, evidence-based protection and review.
- D. Guarantee incumbents against failure.

2. What is the best way to read “forever monopoly” in the chapter?

- A. As rhetorical criticism requiring examination of actual terms and conduct.
- B. As proof every intellectual-property right has no end date.
- C. As permission to ignore existing rights.
- D. As a complete calculation of innovation incentives.

3. A licensing sunset is approaching, but the rule prevents a demonstrated hazard. What should a reviewer do?

- A. Allow expiry solely to maximise deregulation.
- B. Ignore the review forever.
- C. Let incumbents decide without evidence.
- D. Assess renewal or redesign using safety, access, and less restrictive alternatives.

Answer explanations

1. C — Lower unnecessary entry costs while retaining proportionate, evidence-based protection and review.

Open access is distinct from anarchy in the source. The proposal should connect restrictions to hazards and allow challenge and correction.

2. A — As rhetorical criticism requiring examination of actual terms and conduct.

The phrase is polemical. Real analysis needs the specific right, term, jurisdiction, incentive, and cost; it is not legal permission or a universal factual statement.

3. D — Assess renewal or redesign using safety, access, and less restrictive alternatives.

A sunset creates a review opportunity. Its purpose is not to discard effective protection without checking the consequences.

Module assessment

Open a protected local market

A fictional town requires a costly general licence for appliance repair, grants an incumbent exclusive access to service manuals, and renews all rules automatically. It also has evidence of a genuine electrical-safety hazard. Propose an entry reform.

Required evidence

- A hazard-to-requirement and cost comparison.
- An assessment of exclusivity and feasible alternatives.
- A 600-word implementation plan covering all four open-access proposals, transition costs, and review.

Assessment criteria

Diagnosis • 5 points

Distinguishes relevant safety requirements from unsupported exclusion.

Economic reasoning • 5 points

Explains fixed costs, incumbency, creation incentives, and follow-on competition.

Implementation • 5 points

Specifies portability, review, clarity, accountability, and proportionate entry.

Fair evaluation • 5 points

Includes consumers, workers, entrants, safety, uncertainty, and evidence that could reverse the decision.

Model response: consult after your attempt

A strong response preserves competence tests tied to electrical hazards while challenging costly unrelated requirements. It examines whether manual exclusivity is needed for a legitimate incentive and compares narrower access arrangements. It uses proportionate rules, recognition of equivalent competence, scheduled review, and accessible appeals. It supports displaced workers without automatically guaranteeing incumbent profits. The conclusion is justified by expected outcomes and evidence rather than an assumption that all regulation is capture.

Source cautions and interpretation

- Complete source range 02373–02439 and mapped footnotes 68–71 were read. There are no figures or tables. The printed Chapter 18 Notes heading has no following body notes in this group; mapped footnotes are still included in the reading audit.
- Licensing prevalence, jurisdiction examples, wage effects, stock-price reactions, and regulatory-cost claims are source assertions, not verified current law or empirical

measurements.

- The chapter's pro-business/pro-market contrast is a stipulated analytical distinction, not a universal dictionary definition.
- Safety claims and costly regulation do not by themselves establish rent-seeking; genuine public benefits and market failures require analysis.
- "Forever monopoly" is rhetorical. Intellectual-property rights and tax treatment are jurisdiction-specific; this course provides no legal, investment, or tax instructions.
- Exact mapped footnote locations read: 68 at lost-lesson-b02376; 69 at lost-lesson-b02379; 70 at lost-lesson-b02392; 71 at lost-lesson-b02403.

Source coverage

I. The Rent-Seeking Reflex

Lesson 1 defines rent-seeking, investigates occupational licensing, and quantifies fixed-cost regulatory moats; exercises compare risk-relevant requirements and proportionate alternatives.

[Read source section: full-book PDF page 233](#)

II. The Guilds Return: Occupational Licensing

Lesson 1 defines rent-seeking, investigates occupational licensing, and quantifies fixed-cost regulatory moats; exercises compare risk-relevant requirements and proportionate alternatives.

[Read source section: full-book PDF page 233](#)

III. Regulatory Capture: The Moat of Complexity

Lesson 1 defines rent-seeking, investigates occupational licensing, and quantifies fixed-cost regulatory moats; exercises compare risk-relevant requirements and proportionate alternatives.

[Read source section: full-book PDF page 234](#)

IV. The "Anti-Rich" Policies That Protect the Rich

Lesson 2 examines old/new-money claims, intellectual-property trade-offs, all four open-access proposals, and worker transitions; reform and exclusivity exercises test competing interests.

[Read source section: full-book PDF page 235](#)

V. Intellectual Property as a Forever Monopoly

Lesson 2 examines old/new-money claims, intellectual-property trade-offs, all four open-access proposals, and worker transitions; reform and exclusivity exercises test competing interests.

[Read source section: full-book PDF page 235](#)

VI. The Solution: Open Access

Lesson 2 examines old/new-money claims, intellectual-property trade-offs, all four open-access proposals, and worker transitions; reform and exclusivity exercises test competing interests.

[Read source section: full-book PDF page 236](#)

VII. Conclusion: The Dangerous Life of the Open Market

Lesson 2 examines old/new-money claims, intellectual-property trade-offs, all four open-access proposals, and worker transitions; reform and exclusivity exercises test competing interests.

[Read source section: full-book PDF page 236](#)

The Lesson Line

Lesson 2 examines old/new-money claims, intellectual-property trade-offs, all four open-access proposals, and worker transitions; reform and exclusivity exercises test competing interests.

[Read source section: full-book PDF page 237](#)

Chapter 18 Notes:

Lesson 2 identifies the empty printed Notes heading and explains the separately mapped footnotes 68–71, their support roles, and verification limits.

[Read source section: full-book PDF page 238](#)