

UDC: 330.341.1: 330,112

INNOVATION AND MARKET POWER: A STUDY OF INTERRELATION ON THE TELECOMMUNICATION SERVICE MARKET

*G. M. Pylypenko, D.E., Prof., SHEI «National Mining University»,
pelepenkoyi@mail.ru*

Research methodology. The results are obtained with the use of the following methods: modeling – in determining features of consumer demand redistribution on the telecom services market; correlation analysis – in investigating the substitutability levels of fixed and mobile telephone communications, as well as telephone and Internet communications in Ukraine; scientific analysis – in determining the patterns of product innovations relationships and market power.

Results. Mechanisms of product innovations relationships and market power are analyzed on the basis of the model of Salop's circular city. It is established that, on the one hand, innovation is able to limit the market power of the monopolistic firm by offering a new monopoly substitute of goods or services, by narrowing the areas of market power and by stimulating the formation in their place of a single relevant market within which the competition increases as a result of the expanding circle of participants.

On the other hand, innovations can strengthen the market segmentation, creating the new areas of market power in it as a sphere of economic rent withdrawing and provide the consumers redistribution to them, also based on the Veblen effect. As a result of these processes the toughness of industry competition is decreasing and the model of this competition is acquiring features of deterrent practices. Therefore, the subjects of market power are protected from the tough behavioural competition due to the conditional distribution of market segments between the operators of integrated commodity market.

Novelty. It is established that the choice of the innovative products into the product space leading point is a key factor of the innovational influence on the market power level that is inherent to both new and already existing market participants.

Practical value. The research results can be used in determining the levels of market power of the economical subjects on separate industrial commodity markets of Ukraine.

Keywords: product innovation, imperfect competition, the effect of economies of scale in promoting innovation, market power, horizontal differentiation, vertical differentiation, telecommunications, S. Salop model, market of the telecommunicational services.

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