

"A man is
great by
deeds, not by
birth"

-Chanakya

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Case Study

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Regulatory Pricing Mechanism in the context of privatization of Delhi and Mumbai airports: double down or pivot

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ABSTRACT

Private investment in public utilities is prone to abuse of market power resulting from the monopoly that comes naturally in such transactions, thus resulting in higher tariffs and/or poor quality services. Hence, most states have found the urge to regulate such transactions and later such operations. However, in doing so, such regulations can itself create distortions that are worse than the distortion of market power. Thus, globally, there is a move to adopt light-touch regulations in industries ranging from telecom to Banking to Media among others. While privatizing airports in India, Airport Economic Regulatory Authority preferred the light-touch approach to regulation but with price caps. This case compares and illustrates alternative approaches to price cap regulation: (i) Rate of Return approach, (ii) RPI-X approach, and (iii) Earnings share approach in the context of Mumbai Airport.

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