Abstract
This paper reviews the economic theories of regulation. It discusses the public and private interest theories of regulation, as the criticisms that have been leveled at them. The extent to which these theories are also able to account for privatization and deregulation is evaluated and policies involving re-regulation are discussed. The paper thus reviews rate of return regulation, price-cap regulation, yardstick regulation, interconnection and access regulation, and franchising or bidding processes. The primary aim of those instruments is to improve the operating efficiency of the regulated firms. Huge investments will be needed in the regulated network sectors. The question is brought up if regulatory instruments and institutions primarily designed to improve operating efficiency are equally well-placed to promote the necessary investments and to balance the resulting conflicting interests between for example consumers and investors.