

Merger Retrospectives Panel Discussion

FTC Microeconomics Conference
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Overview

Merger Retrospectives

1. Brief summary stats of past literature
2. What can we learn through retrospective analyses?
3. Suggestions for future work

Literature Review

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- ▶ Main criterion: paper evaluated a past merger that had actually taken place
- ▶ Preliminary: probably missed some papers in lower journals
- ▶ Found 73 “merger retrospective” papers from 1985-2010
- ▶ ⇒ Literature is larger than it has recently gotten credit for

Literature Review

Industries covered by literature:

- ▶ Railroads (10)
- ▶ Airlines (9)
- ▶ Banks (9)
- ▶ Hospitals (8)
- ▶ Gasoline (6)
- ▶ Radio/TV (5)
- ▶ Cereals/Food Products (3)
- ▶ Other (23)

Literature Review

Many papers in prestigious journals:

1. RAND (7)
2. JIE (6)
3. AER(5)
4. Journal of Law and Economics (5)
5. JFE(4)
6. Journal of Banking & Finance (3)
7. Journal of Finance (3)
8. Review of Industrial Organization (3)
9. JEMS (2)

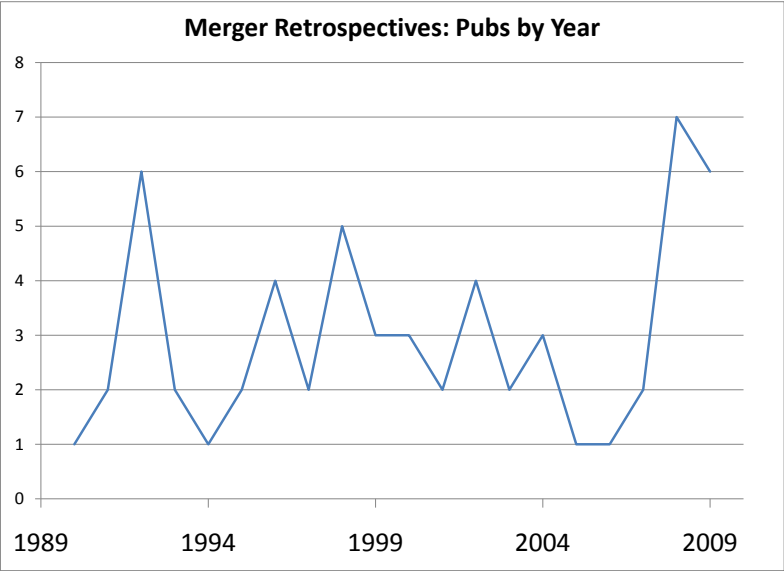
Literature Review

Many important papers in literature:

1. 311: Focarelli and Panetta, AER (2003)
2. 271: Nevo, RAND (2000)
3. 267: Kim and Singal, AER (1993)
4. 205: Prager and Hannan, JIE (1998)
5. 165: Borenstein, AER (1990)
6. 162: Lynk, JL&E (1995)
7. 146: Hastings, AER (2004)
8. 135: Berry and Waldfogel, QJE (2001)
9. 124: Pinkse and Slade, EER (2004)
10. 94: Barton and Sherman, JIE (1984)

(citation counts from google scholar, finance journals excluded)

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- ▶ Literature concentrates on small number of industries where there is a wealth of available data
- ▶ Speculation: perception that literature is small may come from using a narrow definition of “merger retrospective”

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- ▶ each individual study not very useful
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Conclude by suggesting alternative that could be very useful

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- ▶ Conclude: can't infer that policy too strict if we find negative effect

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Conclude: price effects alone not very helpful in evaluating appropriateness of overall policy

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Even in a given industry every merger different, depends on:

- ▶ closeness of merged and unmerged firms' products
- ▶ consumer characteristics in affected market
- ▶ threat of entry in that particular market/product segment
- ▶ idiosyncratic cost savings available to the two firms
- ▶ etc

Examples?

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Obvious answer: need economics to fill in the holes

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So we could catalog these too, but same criticisms apply, and it's even more complex.

Future work

Suggestion #1: Write more papers retrospectively evaluating merger forecasts (Carlton 2009)

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- ▶ Need to retrospectively evaluate these forecasts to improve the forecasting methods

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I.e., suppose forecast changes in prices using a BLP model

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Only a handful of papers in literature do this (Peters (2006), Weinberg and Hosken (2008))

Future work

Suggestion #2: To promote research in a particular areas, FTC could collect/maintain data

- ▶ Past literature mainly in areas where data is plentiful
- ▶ If FTC made data available, would facilitate research
- ▶ E.g., hospital mergers
- ▶ Wouldn't necessarily have to be proprietary data