

Discussion: Does Regulation Drive Competition? By Gil and Nishida

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What has been done ...

- Investigate the impact of regulation on competitive conduct of the Spanish local TV industry
 - 3 regimes: not regulated, highly regulated, deregulated
- Use the Bresnahan and Reiss entry model
 - Observe cross-sectional variation on market size and # firms
 - Estimate entry thresholds for 3 regimes respectively
- Decompose entry threshold ratio into fixed costs and variable profits components

Main take-away

- Absent price/quantity data, an entry model utilizing publicly-available data can shed light on the nature of regulation and the intensity of competition
- In the context of literature:
 - BR (1989) tries to understand the (often) huge variation in entry conditions across industries
 - This paper links regulation to entry conditions, something BR tried but failed
 - Given the influence BR has on entry studies, more effort along this line is warranted

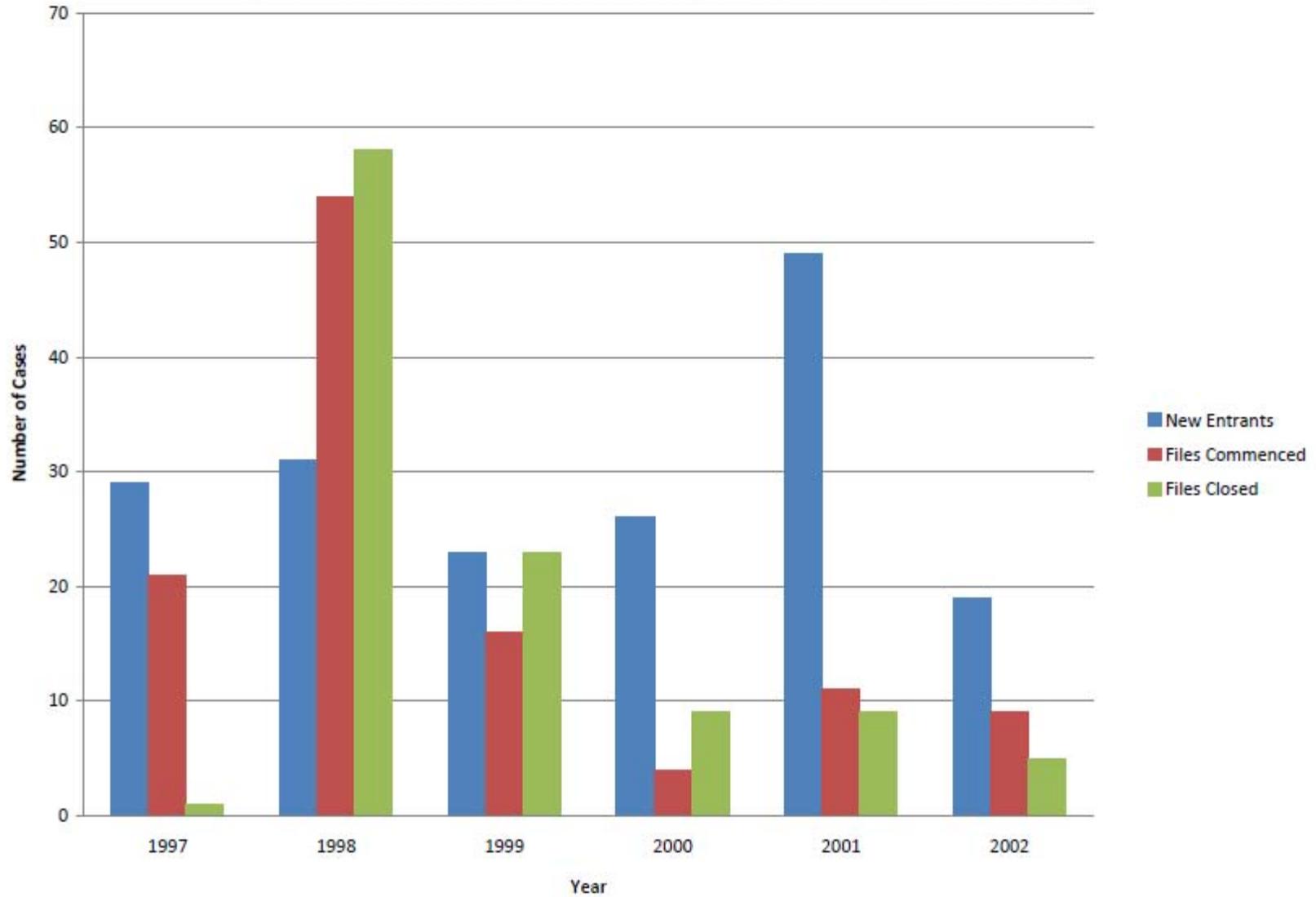
Do entry condition vary over time?

- Now let's turn to the cons of using BR:
 - BR applies to long-run equilibrium
 - What is the problem using a static framework to capture inherently dynamic entry/exit behaviors?
 - Entry threshold is larger than exit threshold due to sunk costs.
 - May take exit threshold for entry threshold, generating unreasonable pattern of results (check out Figure 1 & Table 12)
- **Suggestion:** BR (1994) or Xiao (2011), both distinguish entry and exit thresholds.

Table 12. Per-Firm Entry Threshold Ratios by Year

Year	$S2 / S1$	$S3 / S2$	$S4 / S3$	$S5 / S4$	$S6 / S5$
1995	1.20	1.08	0.98	0.93	0.88
1998	1.67	1.06	1.05	1.88	1.62
2001	1.12	1.10	0.99	0.96	1.03

Figure 1. Station Entry vs. Regulatory Activity 1997 to 2002



Problems with the decomposition

- Identification no clear
 - Need excluded variables in fixed and variable costs for identification.
- Does regulation/deregulation affect:
 - Sunk cost of entry?
 - Fixed cost of operation?
 - Variable cost of operation?
- **Suggestion:** law is national, but application or enforcement may have regional variation. For example, “no more than two local stations” is not binding in small cities

Going one step further...

- Make it more substantial on the policy front
 - Is regulation/deregulation good or bad?
 - Does regulation/deregulation achieve its intended goal?
 - What normative implications can we draw?

Small quibbles

- Notation confusion
- Produce std. errors for entry threshold ratios? (Table 12)
 - Another way to explain middle row anomalies.