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

<table>
<thead>
<tr>
<th>Year</th>
<th>$2 / S1</th>
<th>$3 / S2</th>
<th>$4 / S3</th>
<th>$5 / S4</th>
<th>$6 / S5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>1.20</td>
<td>1.08</td>
<td>0.98</td>
<td>0.93</td>
<td>0.88</td>
</tr>
<tr>
<td>1998</td>
<td>1.67</td>
<td>1.06</td>
<td>1.05</td>
<td>1.88</td>
<td>1.62</td>
</tr>
<tr>
<td>2001</td>
<td>1.12</td>
<td>1.10</td>
<td>0.99</td>
<td>0.96</td>
<td>1.03</td>
</tr>
</tbody>
</table>
Figure 1. Station Entry vs. Regulatory Activity 1997 to 2002

- New Entrants
- Files Commenced
- Files Closed

Year:
- 1997
- 1998
- 1999
- 2000
- 2001
- 2002

Number of Cases:
- 0
- 10
- 20
- 30
- 40
- 50
- 60
- 70

Legend:
- Blue bars: New Entrants
- Red bars: Files Commenced
- Green bars: Files Closed
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.