

Discussion of
Using Mergers to Test a Model
of Oligopoly

Discussant:

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Overview of Paper

- Paper looks at how well merger simulation performs in predicting price effects
- Agencies need to predict impact of merger before it happens
- Merger simulation is one common tool
 - Estimate demand
 - Assume a model of industry structure and predict effects

Overview of Paper

- Merger sim prediction on two mergers
 - Motor oil:
 - Actual price up for both products
 - Predicted price increase very small
 - Syrup:
 - Actual increase is small for one and negative for other
 - Prediction is large increases

Explanation of Results

- Demand misspecification
 - OLS, IV logit, gives reasonable elasticities
 - Linear, AIDS IV and regular logit do not
- Other changes in cost or demand post-merger
 - Chow tests suggest demand shifts (AIDS)
 - Using post-merger demand estimates makes motor oil look better, but not syrup
 - Marginal cost changes necessary to generate post-merger prices are implausible
- Sensitivity to market size assumptions
 - AIDS: require high elasticity to get syrup price effect
 - Logit: small effects for oil, harder to match for syrup

Comments

- Important policy questions
- Clear writing
- Nicely done econometric work
- Peters (2006)
 - Evaluates efficacy of merger simulation in airlines
 - I'll suggest exercises to make this paper's contribution broader

Comments

- Demand specification
 - Findings seem sensitive to specification
 - Models used may be too restrictive
 - Random coefficients logit is a popular specification
 - Multiple equilibria problem
 - Other variables:
 - Advertising is probably very important for syrup
 - Include more possible instruments? Corn syrup price, etc

Comments

- Could different models of competition explain divergence?
 - Marginal cost results suggest this (Peters (2006))
- Other competitive models?
 - Retailer manufacturer game
 - Dynamic or tacit coordination game
 - Stackelberg

Comments

- Strange that AIDS IV gives price decreases for syrup when the cross-elasticity is large and positive
- On actual price changes:
 - Discuss advantages & disadvantages of diffs in diff vs difference only
 - Could control brands (private labels) raise price in response to merger?
 - Strange to get a negative (and significant at 10%) change for one of the syrup brands.
 - Fix-it first or divestiture?