

Econ 243 October 8, 2018

= **cartel stability**: cellular provider paper Tab 1-2, 9-10; entry Tab 5, 21; Tab 6 23 price war

Bourreau, Marc, Yutec Sun, and Frank Verboven. 2018. "Market Entry, Fighting Brands and Tacit Collusion: The Case of the French Mobile Telecommunications Market." [CEPR Discussion Paper 12866](#).

- one key is net present value mindset
- second key is ability to distinguish shocks that would rationally lead to a lower cartel price
  - » positive shock of lower input costs,
  - » negative shock of lower demand
- versus cheating
  - » information on joint issues from industry associations
  - » information on price / quantity of individual members
- empirically turns out to be easier to coordinate raising prices
  - » new entry muddies everything, especially a low-end entrant.
- tit-for-tat punishing of cheaters helps
- lower market volatility helps
- lack of cost-lowering technical innovation helps

= technology markets: **if** perception of winner takes all **then** price wars inevitable

- but does the winner take all?
- how long will the price war take?
  - » Amazon!

= all this is in addition to the "normal" constraints on Bertrand competition:

- capacity limits
- product differentiation
  - » **beer: can firms create "spurious" differentiation to lessen competition? = "branding"?**

= **papers**

- organizational ecology models:
  - » Carroll, Glenn R., and Michael T. Hannan. 1995. *Organizations in Industry: Strategy, Structure and Selection*. New York: Oxford University Press.
    - includes pre-craft-brewing chapter Anand Swaminathan & Glenn Carroll, "Beer Brewers"
    - » Klepper for autos, others for insurance, restaurants, many other "start-up" industries
- now applicable to craft brewers?!

= **statistics: count the asterisks!**

Blonigen, Bruce, and Justin Pierce. 2016. "Evidence for the Effects of Mergers on Market Power and Efficiency." [Finance and Economics Discussion Series 2016-082](#). Federal Reserve Board of Governors.

- essence is **some version of fitting a line** to data: **count the asterisks**: does the line fit well?
- in real world data don't cooperate: seldom linear, time correlations, missing variables, truncated observations, qualitative variables [yes/no, small/medium/large], selection bias
- reverse causation vs correlation: need theory to know what affects what