

Merger Retrospectives Panel Discussion

FTC Microeconomics Conference
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Yale University

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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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- | 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 is larger than you might think, well placed, some evidence of recent growth
- | 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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I will argue that:

- | such data would not be very interesting on its own
- | each individual study not very useful
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- | aside: hard to do well (ignore)

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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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Problem #2: Every merger is different

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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Future work

Suggestion

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

- | When considering a merger, we forecast price effects, typically using an economic model (formal or not)
- | Need to retrospectively evaluate these forecasts to improve the forecasting methods

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Much more valuable than cataloging price effects

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Much more value using price economics

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