

# Retrospectives on Merger Policy: A Survey

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Third Annual Federal Trade Commission &  
Northwestern University Microeconomics Conference

# Introduction

- Merger policy retrospectives are attracting much recent interest
  - Understandable as economists seek to refine application of policy
- Yet retrospectives not entirely new
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# Objective

- Yet those studies are both more and less inclusive than I think desirable
  - To understand why, need to specify objective clearly
- My objective is to evaluate merger policy by assessing outcomes of actual mergers in cases that rise to some level of competitive concern
- Thus: Not all mergers
  - Not studies of “average merger effect”
  - Not all studies
- But: All sound evaluations of specific mergers in US
  - Including some “semi mergers” – joint ventures and airline code shares



# Direction of the Project

- Much remains to be done:
  - More studies
  - Quality control
  - Methodological issues
  - Selection issues
- And most importantly, linking each to merger policy actions
  - Most of these are consummated mergers where either FTC or DOJ raised an objection
    - Or case was widely seen as a close call
  - Examining basis for resolution of each case

# Retrospective on Potential Competition

- One of these studies is my own, with Evgenia Shumilkina, forthcoming in the Journal of Industrial Economics
- The focus is on markets—routes—now where both carriers were incumbents, but where one was an incumbent and the other a potential entrant
- Interesting economic question is whether the elimination of a potential entrant relaxed the competitive constraint, allowing greater pricing power by the incumbent—even though incumbent concentration did not change

# Eliminating Potential Competition

- We found about 1400 markets where either USAir or Piedmont was an incumbent and the other a potential entrant by this definition
- No previous study has looked specifically at the effects of eliminating a potential competitor
- Eliminating a potential competitor resulted in a 5.6 percent price increase

# Conclusion

- Renewed interest in retrospectives and more careful thinking about methodology allows
  - re examining past mergers for price effects
  - examining new and different effects—potential competition, service quality, etc.
- Hope is that these studies might thereby improve and influence policy