

Discussion: Does Regulation Drive Competition? By Gil and Nishida

Mo Xiao

University of Arizona

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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

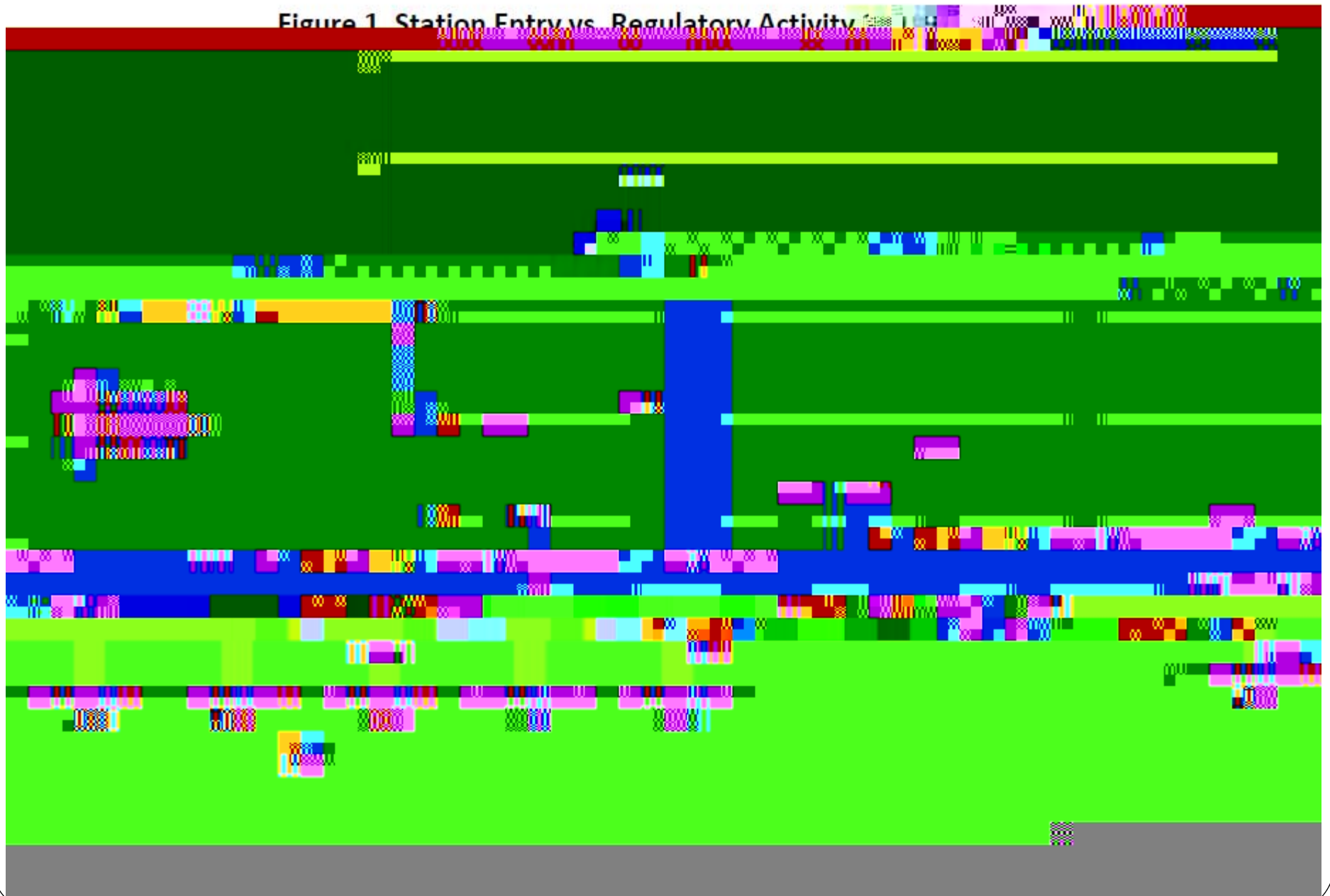
This paper links regulation to entry conditions, something BR tried but failed

Given the influence BR has on entry studies, more effort along this line is warranted

Table 12. Per-Firm Entry Threshold Ratios by Year

Year	S2 / S1	S3 / S2	S4 / S3	S5 / S4	S6 / S5
1995	1.00	1.00	0.00	0.00	0.00
1996	1.00	1.00	0.00	0.00	0.00
1997	1.00	1.00	0.00	0.00	0.00
1998	1.00	1.00	0.00	0.00	0.00
1999	1.00	1.00	0.00	0.00	0.00
2000	1.00	1.00	0.00	0.00	0.00
2001	1.00	1.00	0.00	0.00	0.00
2002	1.00	1.00	0.00	0.00	0.00
2003	1.00	1.00	0.00	0.00	0.00
2004	1.00	1.00	0.00	0.00	0.00
2005	1.00	1.00	0.00	0.00	0.00
2006	1.00	1.00	0.00	0.00	0.00
2007	1.00	1.00	0.00	0.00	0.00
2008	1.00	1.00	0.00	0.00	0.00
2009	1.00	1.00	0.00	0.00	0.00
2010	1.00	1.00	0.00	0.00	0.00
2011	1.00	1.00	0.00	0.00	0.00
2012	1.00	1.00	0.00	0.00	0.00
2013	1.00	1.00	0.00	0.00	0.00
2014	1.00	1.00	0.00	0.00	0.00
2015	1.00	1.00	0.00	0.00	0.00
2016	1.00	1.00	0.00	0.00	0.00
2017	1.00	1.00	0.00	0.00	0.00
2018	1.00	1.00	0.00	0.00	0.00
2019	1.00	1.00	0.00	0.00	0.00
2020	1.00	1.00	0.00	0.00	0.00

Figure 1 Station Entry vs. Regulatory Activity



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?

