

Discussion of

# 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)
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# 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?