ESTIMATING MARKET POWER AND STRATEGIES

This book presents, compares, and develops various techniques for estimating market power – the ability to set price profitably above marginal cost – and strategies – the game-theoretic plans used by firms to compete with rivals. The authors start by examining static model approaches to estimating market power. They extend the analysis to dynamic models. Finally, they develop methods to estimate firms’ strategies directly and examine how these strategies determine market power. A detailed technical appendix reviews the relevant information-theoretic and other econometric models that are used throughout. Questions and detailed answers for students and researchers are provided in the book for easy use.

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Estimating Market Power and Strategies

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The purpose of this book is to show how to estimate a variety of traditional and new empirical industrial organization models of market power: the ability to raise price above marginal cost. We review the literature and methods to date, and focus on our work, particularly on dynamic models and estimating firms’ strategies.

The book is appropriate for graduate students and researchers who have at least a basic understanding of theoretical industrial organization and standard econometric techniques. The chapters on dynamic models require a basic knowledge of dynamic optimization. A technical appendix at the end of the book reviews basic econometric techniques and covers in detail information-theoretic techniques, which we use in the last two chapters of the book.

We believe that it is crucial that economists be able to estimate and explain market power and determine firms’ strategies. Economic theory alone cannot tell us how much market power firms exercise or which strategies they use. Thus, empirical work is critical if we are to understand how markets function. This work is also of importance for many policy purposes such as writing and enforcing antitrust and merger laws, regulating markets, facilitating entry, encouraging or discouraging product differentiation or advertising, or predicting the effects of taxes and other policies.

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