

CONTENTS

Preface

- 1 INTRODUCTION
 - 1.1 The scope of the field
 - 1.2 Theory versus empiricism
 - 1.3 Barriers to entry and the structure–conduct–performance paradigm
 - 1.4 A decade of high theory
 - 1.5 An outline of the book

- 2 FOUNDATIONS OF OLIGOPOLY THEORY I
 - 2.1 Introduction
 - 2.2 Cournot in his own words
 - 2.3 The classical oligopoly theory formulation
 - 2.3.1 Graphical exposition
 - 2.3.2 Mathematical exposition
 - 2.3.3 Recapitulation
 - 2.4 Best-response functions
 - 2.4.1 Constant elasticity of demand
 - 2.4.2 Stackelberg example
 - 2.4.3 Amoroso example
 - 2.5 Existence
 - 2.6 Stability
 - 2.6.1 Adjustment to equilibrium
 - 2.6.2 Cournotian adjustment
 - 2.7 Comparative statics: the number of firms

2.8	Limiting behavior	34
2.8.1	Long-run competitive equilibrium	36
2.8.2	Long-run Cournot equilibrium	36
2.8.3	Recapitulation	39
2.9	Conclusion	39
	Problems	39
FOUNDATIONS OF OLIGOPOLY THEORY II		41
3.1	Introduction	41
3.2	Cournot duopoly as a static game	41
3.3	Static versus dynamic? (Nash versus Cournot?)	44
3.4	Conjectural variations	45
3.4.1	Conjectural derivatives	45
3.4.2	Conjectural elasticities	47
3.4.3	Consistent conjectural variations	47
3.5	The coefficient of cooperation	51
3.6	Representative consumer models of product differentiation	52
3.6.1	Bowley	52
3.6.2	Shubik–Levitan	55
3.7	Cournot with product differentiation	57
3.8	Bertrand with product differentiation	59
3.9	Prices versus quantities	63
3.10	Supply function oligopoly	66
3.10.1	General	67
3.10.2	Linear demand, quadratic cost	68
3.11	Two-stage capacity-constrained competition	70
3.11.1	Rigid capacity constraints	70
3.11.2	Permeable capacity constraints	75
3.12	Conclusion	80
	Problems	81
FOUNDATIONS OF OLIGOPOLY THEORY III		84
4.1	Hotelling	84
4.1.1	Setup	84
4.1.2	Locations with well-behaved best-response functions	86
4.1.3	Locations with badly behaved best-response functions	89
4.1.4	Best-response functions	92
4.1.5	Existence of pure-strategy equilibrium prices	93
4.1.6	Mixed-strategy equilibrium prices	94
4.2	Beyond Hotelling	94
4.2.1	Reservation price	94
4.2.2	No mill-price undercutting	96
4.2.3	Quadratic transportation cost	97
4.2.4	Consumer heterogeneity	100

- 4.2.5 Beyond duopoly
- 4.2.6 The circular road
- 4.2.7 Other extensions of the Hotelling model
- 4.3 Vertical product differentiation
 - 4.3.1 Monopoly
 - 4.3.2 Oligopoly: consumers distributed by marginal utility of quality
 - 4.3.3 Oligopoly: consumers distributed by income
- 4.4 The relation between models of horizontal and vertical differentiation
- 4.5 Conclusion
- Problems

- 5 **EARLY EMPIRICAL STUDIES OF STRUCTURE-CONDUCT-PERFORMANCE RELATIONSHIPS**
 - 5.1 Introduction
 - 5.2 Bain and the critics
 - 5.2.1 Bain
 - 5.2.2 Criticism
 - 5.2.3 Summary
 - 5.3 Early econometric work
 - 5.3.1 Industry-level studies
 - 5.3.2 Firm-level studies
 - 5.4 Summary

- 6 **DEBATES OVER INTERPRETATION AND SPECIFICATION**
 - 6.1 Introduction
 - 6.2 Market power versus efficiency
 - 6.2.1 Theory
 - 6.2.2 Early empirical evidence
 - 6.2.3 Later empirical evidence
 - 6.2.4 Summary
 - 6.3 Measurement issues in the diagnosis of market power
 - 6.3.1 Early arguments
 - 6.3.2 Formal approaches
 - 6.3.3 The use of accounting data
 - 6.3.4 Summary
 - 6.4 Identification
 - 6.4.1 A three-equation system
 - 6.4.2 Identification of the three-equation system
 - 6.4.3 Summary
 - 6.5 Firm effects versus industry effects
 - 6.5.1 Schmalensee
 - 6.5.2 Scott and Pascoe

6.5.3	Kessides 1	181
6.5.4	Kessides 2	182
6.5.5	Amel and Froeb	182
6.5.6	Roberts and Supina	182
6.5.7	McGahan	183
6.5.8	Mueller and Raunig	184
6.5.9	Overall	184
6.6	Conclusion	184
	Problems	185
EMPIRICAL STUDIES OF MARKET PERFORMANCE		186
7.1	Introduction	186
7.2	Conjectures	186
7.2.1	Iwata	186
7.2.2	Appelbaum	187
7.2.3	Roberts	189
7.2.4	Spiller and Favaro	190
7.2.5	Suslow	192
7.2.6	Breakfast cereal 1: Liang	193
7.3	Time series	194
7.3.1	Domowitz, Hubbard, and Petersen 1	194
7.3.2	Domowitz, Hubbard, and Petersen 2	198
7.3.3	Final remark	199
7.4	Avoiding cost data I: NEIO	199
7.4.1	The automobile industry	201
7.4.2	Breakfast cereal 2: Nevo	204
7.5	Avoiding cost data II: the Solow residual	205
7.5.1	Solow	205
7.5.2	Hall 1	207
7.5.3	Hall 2	210
7.5.4	Norrbin	213
7.5.5	Domowitz, Hubbard, and Petersen 3	213
7.5.6	Roeger	213
7.5.7	Klette	214
7.5.8	Reprise	214
7.6	Validity checks	214
7.7	Event studies	215
7.7.1	Mullin et al.	215
7.8	Price versus rate of return	217
7.8.1	Retail prices	217
7.8.2	Reservations	220
7.9	The persistence of profits	221
7.9.1	The United States	222
7.9.2	France, West Germany, and the United Kingdom	223
7.10	Not the last word	225

8	STRATEGIC BEHAVIOR: INVESTMENT IN ENTRY DETERRENCE	2
8.1	Introduction	2
8.2	Excess capacity	2
8.2.1	Excess capacity committed to use in the event of entry	2
8.2.2	Credible threats	2
8.2.3	Evidence	2
8.3	Switching costs	2
8.3.1	A monopolist with switching costs	2
8.3.2	Entry deterrence with switching costs	2
8.4	Raising rivals' costs	2
8.5	Predatory pricing	2
8.5.1	The chain store paradox	2
8.5.2	Resolutions of the chain store paradox	2
8.6	Limit pricing	2
8.6.1	Imperfect information	2
8.6.2	Predation, limit pricing, and merger	2
8.7	Advertising and limit pricing	2
8.7.1	Uncertainty about an incumbent's cost	2
8.7.2	Extensions	2
8.8	Animal farm	2
8.9	Conclusion	2
	Problems	2
9	ADVERTISING	2
9.1	The Dorfman–Steiner condition and generalizations	2
9.1.1	Advertising by a monopolist in a static model	2
9.1.2	Advertising by a monopolist in a dynamic model	2
9.1.3	Advertising in oligopoly	2
9.2	Advertising as a signal of quality	2
9.2.1	Search goods versus experience goods	2
9.2.2	Quality signaling via price and advertising	2
9.2.3	An example	2
9.2.4	Extension	2
9.3	Welfare consequences of advertising	2
9.3.1	Advertising that shifts demand curves	2
9.4	The duration of advertising effects	2
9.5	The advertising response to entry	2
9.6	Conclusion	2
	Problems	2
10	COLLUSION AND NONCOOPERATIVE COLLUSION	2
10.1	Introduction	2
10.2	Noncooperative collusion in a static model	2
10.3	Noncooperative collusion in repeated games	2

10.3.1	The stage game	297
10.3.2	The infinite supergame	298
10.3.3	Trigger strategies: the grim reaper	299
10.3.4	The stick-and-carrot strategy	301
10.3.5	Demons and repentance	304
10.3.6	Structure, conduct, and the stability of noncooperative collusion	305
10.4	Price wars	314
10.4.1	Imperfect information and noncooperative collusion	314
10.4.2	Price wars during booms	320
10.4.3	Price wars and switching costs	324
10.4.4	Demand shocks	324
10.5	Conscious parallelism	327
10.6	Facilitating practices	329
10.6.1	Most favored customer clauses	329
10.6.2	Price-matching	330
10.7	Empirical studies of collusion	331
10.7.1	Evidence from enforcement of competition law	331
10.7.2	Case studies	332
10.8	Conclusion	333
	Problems	334
11	MARKET STRUCTURE, ENTRY, AND EXIT	335
11.1	Introduction	335
11.2	The measurement of seller concentration	335
11.2.1	Algebraic properties	336
11.2.2	Market share, market concentration, and market performance	337
11.2.3	Empirical evidence	339
11.2.4	Entry barriers	341
11.2.5	Critics	342
11.3	Entry conditions and market structure	344
11.3.1	Fixed cost and economies of scale	344
11.3.2	Market structure with industry-specific assets	351
11.3.3	The model	351
11.3.4	Arbitrary changes in capital stocks	351
11.3.5	Investment by a single firm	353
11.3.6	Asset sales between incumbents	355
11.4	Product differentiation as a barrier to entry	356
11.4.1	The model	356
11.4.2	Strategies and payoffs	356
11.4.3	Sequential equilibrium	357
11.5	Financial markets	360
11.6	Empirical studies of market structure	360
11.6.1	Market concentration	360

- 11.6.2 Market share
 - 11.6.3 Endogenous sunk costs and the bounds approach
 - 11.7 Entry
 - 11.7.1 Oligopolistic interaction among entrants
 - 11.7.2 Entry and exit – description
 - 11.8 Exit
 - 11.9 Empirical studies of entry and exit
 - 11.9.1 Canada
 - 11.9.2 The United States
 - 11.9.3 The United Kingdom
 - 11.9.4 Germany
 - 11.9.5 Japan
 - 11.10 Conclusion
- Problems

12 FIRM STRUCTURE, MERGERS, AND JOINT VENTURES

- 12.1 Introduction
- 12.2 Why are there firms?
 - 12.2.1 Bounded rationality and opportunism
- 12.3 Corporate governance
 - 12.3.1 The M-form hypothesis
 - 12.3.2 Empirical evidence
- 12.4 Business groups
- 12.5 X-inefficiency
 - 12.5.1 Organizational slack
 - 12.5.2 A principal–agent model of X-inefficiency
- 12.6 Horizontal mergers
 - 12.6.1 Losses from horizontal merger?
 - 12.6.2 Welfare effects of horizontal mergers
 - 12.6.3 Empirical evidence on the effects of horizontal mergers
- 12.7 Vertical mergers and vertical foreclosure
 - 12.7.1 Other market power explanations of vertical integration
 - 12.7.2 Distortions in input choice
 - 12.7.3 Information and uncertainty
 - 12.7.4 Price discrimination
 - 12.7.5 Transaction costs
 - 12.7.6 Empirical studies of vertical integration
- 12.8 Diversification and conglomerate mergers
- 12.9 The market for corporate control
 - 12.9.1 Event studies
 - 12.9.2 Studies of post-merger performance
 - 12.9.3 Determinants of merger activity

12.10	Joint ventures and equity interests	415
12.10.1	Incentives to form joint ventures	415
12.10.2	Joint ventures and market performance	415
12.11	Conclusion	418
	Problem	419
13	VERTICAL RESTRAINTS	420
13.1	Introduction	420
13.2	Incentives to impose vertical restraints	421
13.2.1	Market power in oligopoly	421
13.2.2	Free riding	424
13.2.3	Quality certification	426
13.2.4	Vertical restraints under uncertainty	432
13.2.5	Exclusive dealing	436
13.2.6	Tying and bundling	439
13.3	Empirical evidence	441
13.3.1	Econometric analysis	441
13.3.2	Case studies	442
13.4	Conclusion	443
14	RESEARCH AND DEVELOPMENT	445
14.1	Introduction	445
14.2	Stylized facts	447
14.2.1	Rate of return to innovation	447
14.2.2	Spillovers	448
14.2.3	Summary	449
14.3	Deterministic innovation	450
14.3.1	Fully noncooperative behavior	450
14.3.2	R&D joint ventures	455
14.4	Stochastic innovation	457
14.4.1	Input spillovers	458
14.4.2	Appropriability	459
14.4.3	Noncooperative R&D	460
14.4.4	Comparative statics	461
14.4.5	R&D joint ventures	462
14.5	Absorptive capacity	464
14.5.1	Deterministic innovation	464
14.5.2	Stochastic innovation	465
14.6	Patents	466
14.6.1	Patent length	466
14.6.2	Patent breadth	470

- 14.7 Empirical studies of R&D
 - 14.7.1 Market structure and R&D
 - 14.7.2 Cooperative research and development
- 14.8 Final remarks
- Problems

REFERENCES

INDEX OF NAMES

INDEX OF SUBJECTS