

Industrial Economics (EC3313) 2006/07
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February 6, 2007

Problems for Seminar 13

Problem 1

Consider the Bresnahan-Lau approach to identifying market power. Assume a linear demand function — exactly as in Lecture Notes 13/14. However, let marginal cost be constant (with respect to output); that is, assume that $\tau_2 = 0$. Investigate how this alternative assumption affects our ability to identify and estimate the conduct parameter, λ .

Problem 2

Consider again the Bresnahan-Lau approach to identifying market power. Assume exactly the same cost function as in Lecture Notes 13/14. However, let demand have the following form:

$$D(Q) = \delta_0 + \delta_1 Q + \delta_2 Z + \delta_4 Q^2.$$

Investigate how this alternative assumption affects our ability to identify and estimate the conduct parameter, λ .