Discussion of Common Ownership and Product Market Rivalry

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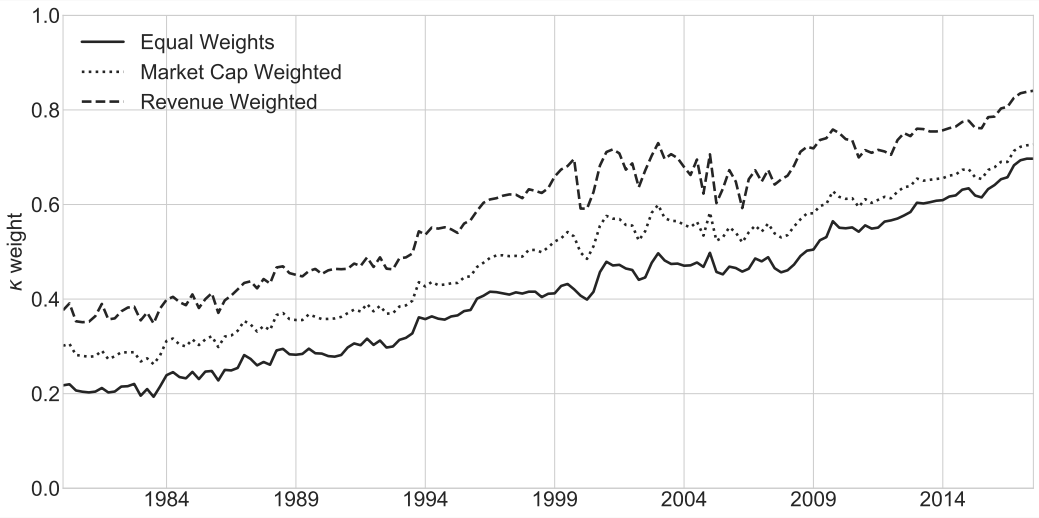
Backus Conlon Sinkinson (AEJM: 2021)



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What did we do:

- Calibrate $n = 8$ symmetric Cournot firms to match some vague notion of aggregate concentration in Macro (?) literature.
- Choose an elasticity to match 1980 markups in DLEU.
- Let $\kappa_{f,g} = 0.2 \rightarrow 0.7$ for all pairs of firms.
- Alternative: let $\kappa_{f,g} = \kappa g', f = 0$ for one f (Maverick).

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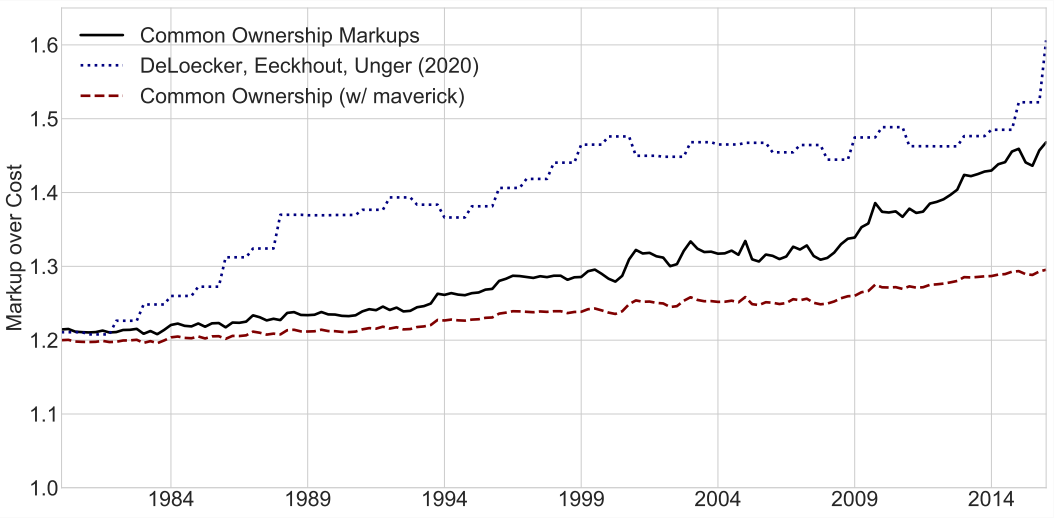

Making Life Easier for IO People

Common ownership is really simple, place some weight κ_{fg} on rival profits:

$$P_f + \theta_i \cdot q_f \cdot P_f'(Q) = C_f'(q_f) + \sum_{g \neq f} \kappa_{fg} \cdot (p_g - mc_g) \cdot D_{f,g}$$

Just get substitution $D_{f,g}$ from cosine similarity of 10-K's.

$$\mathbf{\Sigma} \equiv \alpha \begin{pmatrix} \overbrace{\mathbf{A}'\mathbf{A}}^{\text{Cosine Similarity}} & -\mathbf{I} \end{pmatrix}$$

$$\text{Bertrand: } \mathbf{p} - \mathbf{c} = (\mathbf{K} \odot (\mathbf{I} + \mathbf{\Sigma}))^{-1} \mathbf{q}(\mathbf{p}).$$

What we need is still: elasticity, diversion, marginal costs.

Don't have price variation, so calibrate α to match cross elasticities.

Comment #1

What we really want to know is:

- How much in change over time is κ?
- How much is change in substitution (Hoberg-Philips)?
- How much is entry/exit in the unbalanced panel? We have half as many public firms on US exchanges as we used to.

"Maverick" may still matter.

Comment #2

Vertical

- We may be using similar words in our 10K statements because I engage in mining and you sell mining equipment, and Florian buys copper and procsesses it into wire. (If Necco sells candy hearts with "Will you be mine"... they'll also be a match.)
- In this case we are not horizontal competitors and larger κ should better align incentives.
- Even more problematic for multi-firm business (What does GE or 3M, P&G even do?). [These are same challenges for DLEU].

Usual Critiques

- Much like BCS – "Big if True" though text of paper is less circumspect.
- Do firms actually behave this way?

$$\kappa_{fg} = \frac{\boldsymbol{\gamma_f} \cdot \boldsymbol{\beta_g}}{\boldsymbol{\gamma_f} \cdot \boldsymbol{\beta_f}}$$

- γ_f is a stand-in for Corporate Governance (no idea how that works).
- I am mostly skeptical regarding CO effects in product markets, mostly because agency frictions are real.

Thanks!