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| Reviewer #1: 1.I think the authors should do a round of proofreading before the paper is published. There are several instances, especially in the first few paragraphs, where the writing is not grammatically correct (especially concerning the use of definite and indefinite articles). | **We did an additional round of proofreading by professional editing services.** |
| Reviewer #1  2. I think the authors could include a few sentences on the intuition for Proposition 1 that would be useful for readers.  In Bresnahan (1982), marginal cost depends on quantity, which both the authors and Perloff and Shen (2012) maintain. Thus, on the supply side of the model, the main challenge for the econometrician is to separately identify both the conduct parameter and the slope of marginal cost (the parameters on the other observed cost shifters are trivially identified by assuming those shifters are exogenous). Since quantity is endogenous, this requires two excluded instruments. The demand rotator is one instrument. The other excluded instrument in the model would be the demand shifter. (Because the Bresnahan setup involves homogenous firms, there are no rival product characteristics or rival cost shifters that could be used to form an additional excluded instrument). In simulations, Perloff and Shen (2012) set the parameter on the demand shifter to zero, making it irrelevant as an instrument. Thus, the model is not identified. Instead, under assumption (i) of Prop 1, the authors maintain that both the demand shifter and the demand rotator instruments are relevant. Assumption (ii) ensures that both instruments do not perfectly covary with the observed cost shifters or each other. Under these assumptions, the conduct parameter and the slope of marginal cost are separately identified.  Magnolfi, Quint, Sullivan, and Waldfogel (2022) discuss related issues concerning instrument requirements for falsifying models with upward sloping marginal cost in the context of differentiated products markets. They build on results in Berry and Haile (2014) which shows that falsification of models of conduct with flexible cost functions is possible with instruments. | **We revised the sentences after Proposition 1 as follows:**  In Bresnahan (1982), marginal cost depends on quantity. Thus, on the supply side of the model, the main challenge for the econometrician is to separately identify both the conduct parameter and the slope of marginal cost. Since quantity is endogenous, this requires two excluded instruments which must be relevant. Assumption (i) imposes this relevance. Assumption (ii) is standard in the regression model but not assumed in PS. In the context of differentiated products markets, Magnolfi, Quint, Sullivan, and Waldfogel (2022) discuss related issues concerning instrument requirements for falsifying models with upward sloping marginal cost. They build on results in Berry and Haile (2014) which shows that falsification of models of conduct with flexible cost functions is possible with instruments. |