

and the Mariana Islands are also dropped. Finally, all systems for which relevant variables are missing are dropped. After these modifications, I am left with a sample size of 2,079 cable systems. Table I contains a list of variable definitions, and Table II presents descriptive statistics for the sample.

#### 4.1 MEASURES OF SCALE ECONOMIES

Large cable operators have lower costs than small cable operators for reasons other than bargaining power. Several studies have found empirical evidence of scale economies in cable television. To measure the effect of size on bargaining power, it is necessary to account for the effect of size on scale economies. In this paper, scale is measured as both the number of households the operator serves locally (CSIZE)

TABLE I.  
VARIABLE LIST

| Variable                         | Definitions  |
|----------------------------------|--|
| Demographic variables            |  |
| ADIR                             | Area of dominant influence rank; measures local television market strength; the higher the rank, the weaker the market |
| MDHINC                           | Median household income  |
| MDHINC2                          | Median household income squared  |
| PERPHH                           | Persons per household  |
| POPDEN                           | Population density defined as population over square miles   |
| Price-quantity-channel variables |  |
| PP                               | Average monthly price of pay cable   |
| PB                               | Price of basic cable, i.e., monthly fee  |
| NTIER                            | Number of pay channels offered   |
| QB                               | Number of basic cable subscribers  |
| qb                               | Basic Penetration Rate: $QB/HOMESP$  |
| QP                               | Number of pay cable subscribers. Note that a single household can order multiple pay channels                          |
| qp                               | Pay Penetration Rate: $QP/Homesp$  |
| TSATC                            | Number of channels offered on basic cable  |
| System characteristics           |  |
| CCT                              | Number of affiliated systems nearby  |
| CHCAP                            | Channel capacity of system   |
| CSIZE                            | Total number of homes passed by nearby affiliated systems  |
| HOMESP                           | Total number of homes passed by system   |
| MSO                              | Number of all affiliated systems   |
| SIZE                             | Total number of homes passed by all affiliated systems   |
| Affiliation variables            |  |
| BAFFIL                           | Number of basic channels to which system owner is affiliated   |
| PAFFIL                           | Number of pay channels to which system owner is affiliated   |

Note: Variables LNSIZE is the natural log of SIZE, defined above. Also, for all the LN variables.