

## Abstract

Author: Roberto Balmer

### Measurement of Market Power in the Telecom Sector

#### Project purpose

Industries that are traditionally heavily regulated are interesting to examine. We know bad stories from both sides of the turf. We know that simply regulating pure monopolies can lead to a socially suboptimal result, but we know as well that the same applies to deregulated markets when it leads to few private firms having high market shares. The question that is crucial to the regulator and the final decision makers is, if the current policy regime is justified. Hence, is the market power that is exerted in the market as small as we can make it by regulation? In particular, if there was a policy change, would we observe less exertion of market power than under the old regime?

There is a lively debate about the effects of liberalisation of the **long distance telephone services, the market for mobile telephone services and the Cable market** in Europe and in Switzerland in particular. The scope of this project is to examine these three markets, **measure market power** and use the results to judge the success of current or planned regulation.

At the end of the project we want to use the measure of market power in the three markets to make 1) **international comparisons** and 2) **compare to extreme market structure situations**. This will tell us if Swiss regulation is particularly inefficient or not and if the market situation in the country is close to competition or to monopoly.

In the cable services market we will additionally be able to state if satellite services are a serious competitor/threat to cable services (where cable services are present) or not.

#### Theory

In the beginning of the 1990's the New Empirical Industrial Organisation (NEIO) "revolution" led by Timothy Bresnahan at Stanford University has brought new theories on how to measure market power. One of these theories prepares the ground to calculate a Lerner index in markets with a dominant firm and a multitude of smaller, price-taking firms. We will be able to use this theory for long distance telephony, where the remainder of the former state-monopoly is the dominant firm. Another theory allows tracing the effects of ongoing entry on the market power that is exercised in an oligopolistic market. We will adapt this theory to mobile telephony. Advanced econometric estimation procedures have come up in recent years and make these theories now ripe for application. The new possibilities these powerful techniques bring to applied economics are enormous and we hope to contribute with their application to build up a more objective informational basis for policy decisions.