

Project Econ 630 - 2018 Spring

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1 General Purpose

It is time for this semester's project development. At this point you already have a group and a merger case assigned to your respective group. You should feel really proud of yourself; look how much you've increased your understanding of mergers throughout the semester. Now it is time to put it to practice and use critical thinking associated with the techniques learned throughout the semester to understand how those things happen in the real world.

Reading the cases takes some dedication. The language isn't straight forward, nor is the way the texts has been arranged, but lots of information are just waiting to be dug out. Whenever you see references to previous cases, this usually means that a precedent has been established previously, and thus the wording will be repeated verbatim from those cases.

In real-world merger cases people often get to work in interdisciplinary teams including economists, lawyers, business analysts, accountants among others. By engaging in this project you will be experiencing a different and yet similar situation. Though most of you are Economics majors, I am sure your areas of interest and expertise are varied and you will get to put most of them to practice in this work; by leveraging your skills as well as helping each other improve.

2 Project Description

2.1 Background

During ECON 630 - Industrial Organization and Antitrust Policy - you were introduced to a variety of models and methodologies that have either historically or are currently being employed in conducting merger analysis. The general principles guiding the Antitrust Agencies - U.S. Department of Justice and Federal Trade Commission - is expressed by the following statement:

The Agencies seek to identify and challenge competitively harmful mergers while avoiding unnecessary interference with mergers that are either competitively beneficial or neutral. Most merger analysis is necessarily predictive, requiring an assessment of what will likely happen if a merger proceeds as compared to what will likely happen if it does not.

In order to discern which types of mergers are likely to create significant anticompetitive effects from those which are possibly competitively beneficial or neutral, there is a latent need to develop and employ quantitative methods.

A rather broad description of the current methods employed by the Agencies can be found at the *U.S. Department of Justice and Federal Trade Commission Horizontal Merger Guidelines (2010)*. In class you were exposed in a little bit more depth to those different methodologies and indexes, learned what most of the terms mean and also developed some critical thinking into the advantages and caveats that some of the assumptions bring.

2.2 The Merger Cases

Your group was assigned a particular merger case from the following list:

- Brown Shoe Co. v. United States, 370 US 294 - Supreme Court 196
- Federal Trade Commission v. HJ Heinz Co., 246 F. 3d 708 - Court
- FTC v. Staples, Inc., 970 F. Supp. 1066 - Dist. Court, Dist. of
- State v. Kraft General Foods, Inc., 926 F. Supp. 321 - Dist. Co
- US v. H & R BLOCK, INC., 833 F. Supp. 2d 36 - Dist. Court, Dist
- United States v. Philadelphia Nat. Bank, 374 US 321 - Supreme C
- U.S. v. Aetna Humana (2017)

Some of the points I am looking forward to be reported from your group regarding your case include:

- What was the relevant product and geographic market for this potential merger? Did the parties agreed on market definition? What were some of the arguments used in narrowing down and eventually establishing the boundaries of the market?
- What methods were used to assess whether the proposed merger could generate anti-competitive effects? Market Power? Market Concentration? Quality and product differentiation threats? Monopolization on related markets?
- Where the data used came from?
- Was the analysis internally valid (that is, did the assumptions in theory used to the empirical study threaten in any way the obtained results)?
- Was the analysis externally valid (that is, did we learn something from this merger that can be extrapolated to other potential mergers)?
- Were there discussions regarding unilateral effects? Were there discussions regarding coordinated effects? Discuss some of the evidences used to support those claims.
- What were some of the potential pro-competitive effects brought up by the potential merging parties?
 - Efficiencies - were efficiencies taken into consideration? Where would alleged efficiencies come from? What type of evidence was used to support it?
 - Economies/diseconomies of scale/scope and installed capacity - were those mentioned in the merger case? Did the arguments make sense from an economic perspective?
 - Quality increase, Research and Development?
- What was the result of the case? Did the parties manage to merge? Was a preliminary injunction issued?
- Additional comments you may want to include.

2.3 Papers

Associated with the merger analysis, you will also present an academic paper in the field of Antitrust and Industrial Organization. Antitrust Policy, though initiated in the United States in 1890 with the passing of Sherman Act, it is a dynamic and ever evolving process. Economic research has an incredibly important role to play in this matter; by providing theoretical background, empirical evidence and constantly offering feedback and innovation for analysis.

Your role here is to understand the particular antitrust issue the papers try to address, relate the methodology with the subject matter studied in class, and to be able to

present it to your fellow students in a way that is simple, informative and academically sound.

Additionally, you will relate the issue addressed in the paper with the particular merger case that was assigned to you. How does the issue discussed in the paper either corroborates with the findings of the merger case or provides an additional consideration not taken into account by the Agencies?

The list of papers with their respective merger cases are:

- **Brown Shoe Co. v. US** Calkins, S. (1983). The new merger guidelines and the Herfindahl-Hirschman Index. *Cal. L. Rev.*, 71, 402.
- **FTC v. HJ Heinz Co.** Saloner, G. (1985). Excess capacity as a policing device. *Economics Letters*, 18(1), 83-86.
- **FTC v. Staples** O'Brien, D. P., & Wickelgren, A. L. (2003). A critical analysis of critical loss analysis. *Antitrust LJ*, 71, 161.
- **US v. H & R BLOCK** Varner, C., & Cooper, H. (2007). Product markets in merger cases: The Whole Foods decision. *The Antitrust Source*, 7(1), 1-10.
- **US v. Phil Nat. Bank** O'Brien, D. P., & Salop, S. C. (1999). Competitive effects of partial ownership: Financial interest and corporate control. *Antitrust LJ*, 67, 559.
- **Aetna Humana** Dafny, L., Duggan, M., & Ramanarayanan, S. (2012). Paying a premium on your premium? Consolidation in the US health insurance industry. *The American Economic Review*, 102(2), 1161-1185.

3 Expectations

This is an opportunity for you not only to report what is written in the case, but to analyze it as an economist and show me you've learned the content of the class and is able to apply it to real-world situations.

Remember to evaluate your merger case in the historical context it happened. Antitrust Policy has evolved and changed throughout the years and therefore many of the cases you are reading helped or will help shape the way antitrust itself is done on years to come.

As part of my evaluation criteria, I will expect to see concepts and models discussed in class being thoroughly applied throughout the project; as well as discussions regarding the advantages and caveats of each approach.

You should organize a presentation that should range from 15-20 minutes during class. Making a slide presentation is a necessary deliverable - when done well, it engages the

audience and helps you organize your presentation. All group members are expected to present, and all group members will receive the same grade. Grading will be done based out of the rubrics that will be posted on blackboard.

Let me know if you have any other questions. This is supposed to be a fun activity. Dive into the case and see things from multiple angles. Things in Economics are hardly binary, either good or bad. Bring the richness of trade-offs to life in your presentation.

3.1 Final Written Report

Regarding the handout, I am expecting something 5-7 pages long (although it isn't set in stone, content is more important than length). The idea isn't for it to be something super formal and academic. You got to explore a merger case that your classmates didn't; so how can you share that with them? How do you organize the content in a simple manner, that is academically sound, and will allow them to essentially get the big picture of the issues you were presenting (merger cases have lots in common with one another, but there are a lot of nuances that will be present in some and not the others and those provide great learning experiences).

Your written report must contain all the stages of your project, but you will edit it to compose a single document. The different stages may be separated into sections, but you must include an introduction that shows how it all fits together, the context and main results.¹ Your conclusion should be able to discuss external validity of your merger case and policy implications.

3.1.1 Formatting

The following guidelines should be using for formatting:

- Include a Title page containing your project title, authors' names and institution affiliation (The University of Kansas)
- Margins: Uniform margins of at least 1in. (2.54cm)
- There are five levels of headings in APA Style. Proceed through the levels numerically, starting with Level 1, without skipping levels.

You don't need to use all levels. The number of levels depend on the complexity and organization of your paper.

- Font Size: 12pt

¹A trap students often fall into when generating a final report for a project developed in stages is to turn in a "Frankenstein", in which the document is composed of different pieces that don't tell a unified story. You make talk to me or schedule a consultation with the [Writing Center at KU](#) to make sure your document is coherent and cohesive.

- Font: If you are using Microsoft Word, please opt for *Times New Roman*. If you are using a L^AT_EX file, please choose package *lmodern*
- Spacing is one-and-a-half throughout the text with the exception of the abstract, which must be single spaced. (In the case you do decide on including an abstract)
- For citations, please use APA style.
- Tables are often an efficient and convenient way to present information.
 1. Every table must have a numerical identifier and a caption. You must include the numerical identifier whenever mentioning it in the body of the text.
 2. If you table is in the body of the Text, include it on the top of the next page from the one you referred to it.
 3. If your table is included at the Appendix, include them in order that they were first referred to in the text.
- Figures follow a similar protocol to tables.
- You may use quotations in your project, but be mindful when you choose to do so. Sometimes they can be used to enrich your work and bring in outside perspective, but you don't want to be using them to let a previous author be making your points for you.² If you do decide to include quotations, here are the guidelines:
 1. You must always provide the author, year, and specific page(s) in the text citation and include a complete entry for it in your reference section.
 2. If the quotation includes fewer than 40 words, incorporate it in text and enclose it with double quotation marks.
 3. If the quotation includes more than 40 words, it should be treated as a block quotation, meaning that it is displayed in a freestanding block of text without quotation marks.

You should send me a final draft of your written report before your presentation to the class and be ready to incorporate any feedback that you deemed relevant. The Final Report to be evaluated should be handed to me in both soft and hard copies by May 3rd 2017.³

²Poorly used quotations make you seem lazy and amateur. Paraphrase it whenever possible, remembering to always include a citation for previously developed ideas and to add conclusions and inferences that can be connected across different works in literature.

³Soft copies must be in PDF and sent by midnight to dutra@ku.edu. I will not accept any other formats. Hard copies may be handed directly to me or left in my mailbox at the Economics department in Snow 415. Notice that the Economics department closes at 5pm.