Acquisitions as a Response to Deregulation: Evidence from the Cable Television Industry

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Abstract

This paper studies the dynamics of an industry subject to exclusive geographical licensing. I develop a model of license ownership that predicts the evolution of profit-maximizing entry and acquisition decisions by firms over time, starting from an initial allocation of licenses. The entry and acquisition process is modeled as a one-sided coalition-formation game as in Farrell and Scotchmer (1988), where the players’ payoffs depend on economies of scale and agglomeration (economies of density). I estimate the model for the cable television industry in Canada using a panel that I have constructed from 1990 to 1996. The dataset builds up from the national regulator’s license-ownership decision files, and contains license-level information on subscribership, subscription revenues, and channel (upstream) affiliation payments. The model is estimated in 2 steps. I first estimate firms’ license-level profit functions, and then recover the parameters of the entry and merger cost functions by Simulated Maximum Likelihood. I use the estimated model to evaluate how industrial entry and merger activity reacts to a partial deregulation that occurs in 1994, as well as to quantify the impact economies of scale and density have on the evolution of license ownership.

JEL Classification: L12, L22, L96, G34

Keywords: Acquisition, Entry, Coalition Formation, Economies of Density, Economies of Scale, Simulated Maximum Likelihood, Cable Television

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