



Joint TC Seminar and Icarus Society presentation....

"Simulating the Dynamic Effects of Horizontal Mergers: U.S. Airlines"

Thurs. May 19, 2016 - 4:00-5:00 pm

Reception & Refreshments at 3:30 pm

**Location: Northwestern University Transportation Center,
Chambers Hall, 600 Foster, Evanston**



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Abstract We propose a new method for studying the medium and long run dynamic effects of horizontal mergers. Our method builds on the two-step estimator of Bajari, Benkard, and Levin (2007). Policy functions are estimated on historical pre-merger data, and then future industry outcomes are simulated both with and without the proposed merger. In our airline entry model, an airline's entry/exit decisions are made jointly across route segments, and depend on features of its own route network as well as the networks of the other airlines. We also allow for city-specific profitability shocks that affect all route segments out of a given city, as well as segment-specific shocks. Using data for 2003-2008, we apply our model to three recently proposed airline mergers. We find that a merger between two major hub carriers leads to increased entry by the other hub carriers, and can lead to substantial increased entry by low cost carriers, both effects offsetting some of the initial concentrating effects of the merger. Our model also suggests that a merger between two hub carriers can in certain cases lead to dismantling of a hub.

BIO: JOHN LAZAREV, Assistant Professor of Economics, New York University. B.Sc. (economics), Moscow State University, M.A. (economics), New Economic School, Ph.D. (economic analysis and policy), Stanford University. His primary research interests are in the economics of industrial organization. In his research, he develops game theoretic models and applies them to the empirical study of individual industries. His current projects include "The Welfare Effects of Intertemporal Price Discrimination: An Empirical Analysis of Airline Pricing in U.S. Monopoly Markets"; "Simulating the Dynamic Effects of Horizontal Mergers: U.S. Airlines," and "Getting More from Less: Understanding Airline Pricing". Dr. Lazarev is visiting the Department of Economics of Northwestern University during the spring of 2016.