The Failed DirecTV and EchoStar Merger

12/5/2001 Cato Institute — The recently proposed marriage of satellite television providers EchoStar Communications and DirecTV (owned by Hughes Electronics) has raised the possibility of antitrust intervention by federal regulators. Objections to the deal stem from a presumably straightforward concern: If the top two competitors in the satellite TV marketplace are allowed to merge, it will eliminate any vestiges of competition in that sector......In an environment in which the public has yet to embrace broadband Internet services and interactive television remains an unfulfilled promise, satellite may yet break though where cable and DSL have not. Thus policymakers can cause considerable damage when interfering with network industries’ efforts to orient themselves to suit customers’ needs.

Why does the government care about a company’s getting too big?
Firm Size

- Big means powerful
- Big is relative
Industry Concentration

- Four-firm concentration ratio (C4)
  \[ C_4 = \frac{S_1 + S_2 + S_3 + S_4}{S_T} \]

- Herfindahl-Hirschman Index (HHI)
  \[ HHI = 10,000 \sum w_i^2 \]

- DOJ’s rules:
  - \( HHI > 1,800 \) and increased by 100
  - \( HHI < 1,000 \)

- Exceptions: foreign competition, emerging technology, increased efficiency, or financial problems

- Limitations:
  - Global markets
  - National, regional, and local markets
  - Industry definitions
Relative Elasticities

- The more substitutes the better
- The Rothchild index
  - $R = \frac{E_T}{E_F}$
Pricing Behavior

- Higher markup indicates pricing power
- The Lerner index
  - \( L = \frac{P-MC}{P} \)
  - Markup factor \( P = \left( \frac{1}{1-L} \right) MC \)
Some Qualitative Measures

- Technology
- Potential for entry
- Integration and merger activity
- R&D
- Profits
- Social welfare
12/22/2003 AlterNet! — In a devastating blow for media diversity, the FCC, on a contentious 3 to 2 vote, approved a ”$6.6 billion media mega merger” between DirecTV satellite television service and Rupert Murdoch’s News Corporation. The merger will add DirecTV’s 11 million subscriber to Murdoch’s U.S. empire which already includes local television stations reaching more than 44 percent of the country, a major national broadcast network, numerous cable and satellite channels, the most widely used electronic program guide, newspapers, magazines, a publishing house and movie studios.
homework

Chp7 computational 2,4,6