

Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: **Kensuke Kubo**, Univeristy of California, Berkeley, and Institute of Developing Economies, Japan External Trade Organization

TITLE: Inferring the Effects of Vertical Integration from Entry Games: An Analysis of the Generic Pharmaceutical Industry

TIME: 11:30-1:00 P.M.

DAY & DATE: Friday, 29th January 2010

PLACE: Seminar Room 2

Abstract:

This paper introduces a novel method for examining the effects of vertical integration. The basic idea is to estimate the parameters of a vertical entry game. By carefully specifying firms' payoff equations and constructing appropriate tests, it is possible to use estimates on rival profit effects to make inferences about the existence of vertical foreclosure. I estimate the vertical entry model using data from the US generic pharmaceutical industry. The estimates indicate that vertical integration is unlikely to generate anticompetitive foreclosure effects. On the other hand, significant efficiency effects are found to arise from vertical integration. I use the parameter estimates to simulate a policy that bans vertically integrated entry. The simulation results suggest that such a ban is counterproductive; it is likely to reduce entry into smaller markets.

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