Economies of Density and Geographic Clustering in the Cable Television Industry

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Abstract

In this paper I estimate a structural econometric model of geographic sorting, to empirically investigate the causes and consequences of mergers and entry in the cable television industry. Central to the analysis is a unique panel of cable ownership, with location-specific information on firms costs and revenues that I have constructed for Canada from 1985-1996. These data show a substantive increase in ownership concentration, expansion of cable operations of into new geographic markets, and active firm-entry over the sample period. To shed light on the economic forces at play, I develop and estimate an empirical, 2-period merger and entry model. The estimated model allows me to quantify the extent to which economies of scale, economies of density, and unobserved firm heterogeneity drives observed profits, mergers and entry in the data through counterfactual analysis. Empirical results are forthcoming.

JEL Classification: L12, L22, L96, G34

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