Discussion of “Market Structure and Product Quality in the US Daily Newspaper Market”, by Ying Fan

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Summary

- Attempt to calculate the welfare effects of newspaper mergers.
- Most merger analyses examine only price effects.
- In this market quality is an important concern (and endogenous). Challenging issues.
- Structural model of supply and demand in this two-sided market. Ambitious paper and well done.

Contributions (1)

- Generalizes earlier work which assumes that households buy at most one (local) paper.
- Elegant and realistic depiction of the multi-newspaper choice.
- Motivation is a bit of a concern: 84 county/years where circulation exceeds number of households. Driven by home vs. work sales?

Contributions (2)

- The paper endogenizes newspaper quality and uses convincing instruments for identification.
- Most previous work (in most industries) has assumed that product characteristics are fixed.
- Again, this is important for post-merger simulations and welfare analysis.

Abstractions/Concerns (1)

- Readers only care about news, not advertising.
- Conflicting evidence on this in a range of studies and media markets.
- However, more reasonable in this context than for other media.

Abstractions/Concerns (2)

- Advertisers will keep advertising in multiple papers until marginal profit equals zero.
- Rational strategy, but in reality most advertisers have budgets.
- Issue created by allowing HH to buy multiple papers (simpler assumption would avoid this):
  - If readers overlap, some media may *dominate* others in demographics, for some advertisers.
  - Related: could treat advertising portfolios like financial investment portfolios.

Other concerns

- Capture demographics of readers as circulation-weighted sum across markets. But second moment matters too.
- Consider only display advertising? What about classifieds?
- Discounts off list price in advertising.

Counterfactuals

- Important to allow for quality changes post-merger. Nice work.
- Results suggest that newspapers reduce reporters post-merger, thereby reducing reader welfare. But what about George (2007)? Most of these reporters are duplicating functions.
- Mergers may increase efficiency by eliminating fixed costs. The paper does not consider this.