Bid rigging and entry deterrence: Evidence from an anti-collusion investigation in Quebec*

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Abstract

Successful collusion depends on the ability of cartel members to coordinate a profitable and stable agreement amongst themselves and to deter entry. Using variation provided by the collapse of a cartel in Montreal's asphalt market uncovered following an anti-collusion investigation, we quantify the relative importance of these two activities, and shed light on the functioning and impact of cartels. We find that entry and participation increased after the investigation, and prices decreased. Using structural auction techniques we decompose this price change into coordination and entry-deterrence effects, by simulating counterfactual outcomes supposing no entry. We find the role of deterrence is small compared to coordination.

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1 Introduction

Successful collusion depends on the ability of cartel members to overcome two challenges: (i) coordinating an agreement amongst themselves (selecting and coordinating profitable collusive pricing strategies and monitoring behavior to prevent defection) and (ii) deterring the entry of other firms into the market (see for instance Levenstein and Suslow (2006)). While considerable attention has been paid to the impact of coordination, little has been directed at the distortion caused by entry deterrence, or to trying to separate the two effects. This is despite the fact that adverse participation effects could be economically as important as other cartel-related sources of inefficiency and damages (see Asker (2010) for a discussion). In this paper we quantify the relative importance of these two activities. Doing so is important for understanding the functioning of cartels, but also for evaluating the impact of collusion and for learning how to combat it.

We perform our analysis in the context of an investigation into collusive behaviour in the Montreal construction market. In October 2009, Canadian news television show *Enquête* broadcast a program shedding light on the collusion and corruption allegedly rampant in the construction industry in the greater Montreal area (see Enquête, Radio Canada (2009)). Citing as sources an engineer from the transport ministry and anonymous entrepreneurs from the construction industry, it detailed allegations of bid rigging, market segmentation, and complementary bidding. Furthermore, entry was allegedly deterred by the cartel using threats and intimidation. The show shook the province and led to the creation on October 23rd 2009, of a police task force, *Opération Marteau* charged with investigating the allegations.[1] We take advantage of the variation provided by the collapse of the cartel following the investigation and make use of predictions from the literature modelling endogenous participation in auctions to disentangle the coordination and entry-deterrence effects.

We collected data for one particular market, asphalt, through freedom of information requests at the Municipal Clerk's offices for the period 2007 to 2013. These provide information on all public tenders, and the participating bidders before and after the investigation started. In order to estimate the causal impact of the investigation, we collected this

[1] **Legal disclaimer:** This paper analyses the alleged cartel case strictly from an economic point of view. We base our understanding of the facts mostly on data obtained from the municipal clerk's office through access to information requests, through transcripts of testimony from the Charbonneau Commission, and the testimony presented in the *Enquête* broadcast. The investigation into, and prosecution of, firms involved in the alleged conspiracy is ongoing. The allegations have not been proven in a court of justice. However, for the purpose of this analysis, we take these facts as established.

information not only for Montreal, but also for Quebec City, which we employ as a control. Quebec City was not mentioned in the broadcast and was not the focus of the initial investigation. Moreover, to our knowledge, there have been no allegations of collusion or corruption in its asphalt industry.[2] These facts qualify Quebec City as a suitable control and so we use a difference-in-difference approach comparing contracts in Montreal to those in Quebec City to estimate the effect of the investigation on bidding behaviour. This approach has been used to study the impact of alleged price fixing in other markets (see for instance Clark and Houde (2014)).

Our difference-in-difference estimates indicate that entry and participation increased in Montreal following the investigation. Three new firms entered in Montreal following the investigation, increasing the total number of firms in the market by 50%. In contrast, no new firms entered in Quebec City. We estimate a 61% increase in the participation rate in Montreal relative to Quebec City, with 1.6 more bidders per auction after the investigation. We also find that the investigation led to an 18% decrease in the raw price (per tonne) of asphalt in Montreal. These reduced-form results show that entry occurred and that prices fell, but do not inform as to the role that entry played in the price reduction.

For this, we turn to structural auction techniques. We estimate production costs from the post-cartel period in Montreal for all N firms that were present (incumbents and entrants), and then use these cost estimates to decompose the reduced-form price change into coordination and entry-deterrence effects. Specifically, we simulate counter-factual prices under the scenario that the N_e entrants had not in fact entered the market and compare these prices to the benchmark estimated using our difference-in-difference estimates.

Any estimator of the counterfactual scenario that considers an alternative number of potential bidders requires a model of endogenous participation in auctions. There are a number of different endogenous-participation models proposed in the literature, and results are sensitive to the adopted model. Therefore, we develop and estimate nonparametric bounds on the entry-deterrence effect that hold across a range of models with heterogeneous participation costs. When N falls there are two conflicting effects on prices: a *competition effect* and a *participation effect* (see Levin and Smith (1994) and Li and Zheng (2009)). With fewer potential bidders the competition effect suggests that prices should rise, since bidding is less aggressive. However, the participation effect works in the opposite direction, as bidders will be more inclined to participate when they face fewer po-

[2] In recent months authorities have started to look into contracts in cities near to Quebec City, but as of the time of writing there have been no allegations of collusion or corruption in the asphalt market in Quebec City itself.

tential rivals. Our bounds are pinned down by considering the two extreme cases for the participation effect. The upper bound is computed under the assumption of exogenous participation. By this we mean that the probability that a fraction x of firms participates is the same with and without the entrants, and where the former is estimated as the empirical frequency using Montreal data over the competitive phase. In other words, the participation effect is zero. The lower bound is computed assuming homogeneous participation costs, which yields the maximum participation effect. If instead participation costs were heterogeneous, then marginal participants would have higher participation costs, and hence the increase in participation would be smaller. We show that the bounds are sharp, in the sense that each can arise for a certain distribution of the participation cost.

Our findings suggest that, regardless of entry model, the inability of cartel members to deter entry explains only a small part of the price change, with the majority of the change being explained by the loss of their ability to coordinate pricing. The small role of entry deterrence may be due to the fact that, even before entry, there were six players present in the market. In the absence of collusion, six firms may generate a fairly competitive result. However, in other contexts even larger numbers of firms did not guarantee the competitive outcome. For instance, Elsinger et al. (2015) find that when Austria joined the European Union and competitors from across all member states were allowed to bid in their treasury auction the number of participants moved from around 15 to 25 and bond yields fell significantly.

Our analysis was in the context of asphalt auctions and, therefore, our findings are specific to this setting. However, the approach we develop for separately identifying the two cartel activities could be adapted to any setting where it is known that a cartel has ceased to function, for instance because of an anti-collusion investigation. It suffices to be able to model the competitive post-collusion period in order to simulate the no-entry situation. We focus on the post-cartel period rather than the collusive period, since the latter would require modelling collusion in auctions. Such models are often complex to specify and are informative only provided that the researcher has details on the functioning of the cartel, which in many cases is not available on a large scale (see Asker (2010) for an example where such data are available).

If applied, our approach can have policy implications in terms of providing guidance regarding how governments and international organizations should allocate scarce resources in the fight against collusion. At least in the case of the cartel we examine our results suggest that more resources should be devoted to eliminating communication and coordination and fewer to eliminating entry deterrence.

Our paper is related to a growing empirical literature on explicit collusion. Some of this has focused on describing the functioning of cartels and bidding behaviour, for instance Pesendorfer (2000), Genesove and Mullin (2001), Roller and Steen (2006), Asker (2010), and Clark and Houde (2013). Other papers have focused on distinguishing collusion from competition, for instance Porter and Zona (1999), Bajari and Ye (2003), Conley and Decarolis (2013), Kawai and Nakabayashi (2014), and Chassang and Ornter (2015).

There is also a literature on cartel sustainability, whose focus has mostly been on the detection of cheating and retaliation to this behaviour (see Genesove and Mullin (2001) and Stigler (1964) regarding detection, and Green and Porter (1984) regarding retaliation). However, many cartels collapse because of pressures from firms outside the cartel. The role of entry deterrence in sustaining collusion is starting to receive more attention. Levenstein and Suslow (2006) point out that most successful cartels actively create barriers to entry either by engaging in predation (see Scott-Morton (1997), Podolny and Scott-Morton (1999) and Asker (2010)), by turning to the government to create regulations or by using vertical exclusion (see also Heeb et al. (2009) and Marshall et al. (2015)). What is less often discussed is the role that intimidation and violence can play. As pointed out by Porter (2005), illegal sanctions may be available for use in deterring entry, especially in industries linked to organized crime.

Finally, there is growing interest in the role of entry (participation) in auction outcomes (see for instance Li and Zheng (2009), Roberts and Sweeting (2013), Marmer et al. (2013), and Coviello and Mariniello (2014)). Participation is endogenous and not all potential bidders are observed to bid in every auction. We show that collusion is one factor preventing potential competitors not only from entering the market, but participating in and winning auctions.

The remainder of this paper is structured as follows. A description of the market is presented in Section 2. Section 3 explains the alleged conspiracy and the investigation. Section 4 describes the data and some descriptive statistics. The empirical strategy for examining the impact of the investigation, the estimation and the test results are presented and discussed in section 5. Section 6 decomposes the estimated price change into an entry effect and a coordinated-behaviour effect. Finally, section 7 of the paper discusses our findings, the generalizability of our approach and policy implications.

2 The Market

Our focus is on the asphalt markets of Montreal and Quebec City. The City of Montreal is composed of nineteen boroughs. Until 2009, Quebec City was composed of eight boroughs. In 2010, the boroughs of Quebec City were amalgamated bringing the total number to six. Figures B.1 and B.2, located in the Online Appendix, present maps of each city and their boroughs (before and after the amalgamation for Quebec City).

2.1 Adjudication process

The contract adjudication process is the same in Montreal and Quebec City. When submitting their budgets, the boroughs of Montreal and Quebec City make predictions about the required amounts of asphalt to maintain their roads over the course of the upcoming year. The vast majority of contracts are for the *summer season*, with a small minority of contracts for work in the *winter season*. Our focus is on the summer-season contracts.[3]

Neither city has factories to produce asphalt, but each has the manpower required to repair roads with the asphalt provided. Interested firms are invited to submit bids for multiple boroughs and the results for each are announced simultaneously. In Montreal, produced asphalt can either be for delivery or for collection by the city. Delivered asphalt is taken to the borough's designated reception point, while collected asphalt is picked up by the city's trucks. Some types of asphalt are only delivered or only collected, while other asphalt types are both delivered and collected. These auctions are all performed separately. In contrast, in Québec, all asphalt types are collected at the firms' plants by the city's trucks. In our empirical analysis we include all asphalt types, but our results are robust to focusing on a homogeneous set of contracts.

Firms propose bids with two components: the unit price per metric ton and the total bid. First, firms submit a unit price per metric tonne for each type of asphalt required. Second, firms submit a bid that matches the total unit cost multiplied by the quantity required for each type of asphalt and to this they add their shipping costs and taxes. Auctions are first-price sealed bid and single-attribute (cost).

Several different varieties of asphalt are available for paving work. Each of these types of asphalt has different characteristics and is suitable for specific work conditions (for

[3]Only one percent of Montreal's contracts are for the winter season, and just six percent for Quebec City. These contracts are also auctioned at the city level, unlike summer contracts which are auctioned at the borough level. Finally, in Quebec City winter contracts can also vary in the period that they cover. For all these reasons, we omit these contracts from our analysis.

instance some are better for the cold). During our sample period, eleven different asphalt types were ordered in Montreal, and five different types for Quebec City. In our empirical analysis we control for the different asphalt types.

In each of the nineteen boroughs of Montreal there can be one auction per asphalt type. So every year there can be up to 209 contracts awarded in Montreal. Quebec City operates differently, using a single auction per borough, combining all asphalt types. As a result, there are more calls for tender in Montreal than in Quebec City. In Montreal, firms are constrained to bid the same unit price for the same asphalt type in different boroughs, and to bid the same transport cost for delivery of all types within a given borough.

Cities retain the right to reject any bid deemed non-compliant, but this is very rarely implemented. Indeed, in our data, this occurs only once, in Montreal in 2012. In this case, the city canceled the tender and called on all firms to resubmit. Once the auction is completed, the City must publish the results of all firms that bid.

In 2009, Quebec City introduced a by-law forbidding a firm from winning contracts in more than half the boroughs in any given year (more than four prior to 2010, more than three afterwards). Even if a firm was the lowest bidder on a call for tender, it only won the four (three after 2010) calls on which there was the largest difference between the lowest and second lowest bidders. The second lowest bidder wins otherwise. Below we explain how we address this in the empirical analysis.

2.2 Firms

Between 2007 and 2009, a total of six firms bid for contracts for the supply of asphalt in Montreal. We label these firms 1 through 6. Three other firms entered subsequently. Firms 7 and 8 placed bids for the first time in 2010 and firm 9 began bidding in 2012. One of these entrants was a newly established firm, while the others had been around for many years before the operation of the cartel. The three entrants had been active in the private sector prior to 2010. Despite the fact that they each had the capacity to supply public contracts, they never placed bids in municipal auctions prior to this date.

There were a total of seven firms that bid on tenders for the supply of asphalt in Quebec City in the 2007-2013 period. We label these firms 1 through 7.

3 The alleged conspiracy and the investigation

Two years after the launch of the police investigation, the government sponsored an enquiry into collusion and corruption in the province. The *Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry* (commonly referred to as the Charbonneau Commission) was formed on October 11th 2011 to dig further into the allegations of collusion and corruption. Since the creation of the Commission, testimony has substantiated the allegations of corruption and collusive schemes in various construction-related industries in and around Montreal, including the asphalt industry in Montreal proper.

According to testimony during the Charbonneau Commission, collusion has existed in the construction industry in and around Montreal and for provincial contracts (with the Ministry of Transport) at least as far back as the 1980's.[4] Contracts involving asphalt, sewers, aqueducts and sidewalks were all affected.[5]

Collusion involved market segmentation, complementary bidding and payoffs to bureaucrats. Before contracts were allocated by the municipalities or the Ministry of Transport conspiring firms would acquire private information about the contracts (location, size, etc.) from officials.[6] Testimony during the Charbonneau Commission detailed payoffs to city officials, including invitations to fishing and yachting trips, wine and hockey tickets, and also political donations.[7]

Subsequently, representatives would meet to determine which firm would win which contracts based the firms' capacities of production and the location of their plants. The specified winner was then responsible for organizing all of the contracts (its bid and those of competitors). To do so, before the submission closing date, it would contact the other participants telling them what complementary bids they were expected to submit.[8] Ac-

[4]See for instance paragraph 1118 of Piero Di Iorio's testimony from the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, November 26th 2012, Di Iorio (2012).

[5]See for instance paragraphs 788, 790, 804, 1038-1042 and 1134 of Gilles Théberge's testimony from the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, May 23rd 2013, Théberge (2013a).

[6]See paragraphs 684 to 686 and 724 of Jean Théoret's Testimony from the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, November 26th 2012, Théoret (2012).

[7]See for instance paragraphs 1226, and 185 to 206 of Gilles Théberge's testimonies from the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'ndustrie de la construction, on May 23rd and May 24th 2013, Théberge (2013a) and Théberge (2013b).

[8]See for paragraphs 997-1009 ad 1060-1100 of Gilles Théberge's testimony from the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, May 23rd 2013,

cording to dissidents interviewed during *Enquête*'s investigations, these complementary higher bids were submitted to simulate competition. In case their conversations were overheard, the participants used a coded vocabulary to exchange information. The specified winner would claim to be organizing a round of golf. He would call other firms saying, for example, "we will start from the 4^{th} hole and we will be 9 players". This meant that the complementary bids must be over \$4 900 000 (4^{th}=\$4 000 000 and 9 players= \$900 000). The specified winner would bid just below this threshold.[9] The winner would reveal implicitly its bid. To our knowledge, no sidepayments were ever transferred between the colluding firms.

Competition was deterred using threats and intimidation. The two dissidents interviewed during *Enquête*'s investigations, decided to remain anonymous for "fear of their physical integrity."[10] In order to prepare submissions, firms have to request plans from the municipal officials. If a non-cartel firm requested the plans, municipal informants would contact the cartel immediately.[11] Potential bidders would be informed that the contract did not belong to them, and that they either follow the rules of the cartel or remove their submission. Should they refuse, the cartel would harass potential bidders by calling unceasingly until the opening date of the submission. If they still would not join the cartel or leave, individuals would be sent to deliver a threat in person.[12] If, despite the threats, a firm participated in the call for tenders and won the contract, there was little chance it would be able to complete the necessary work. According to a dissident, the cartel would tamper with equipment and materials, and would continue to exert physical violence.[13]

According to testimony during the Charbonneau Commission, while less structured collusion had existed since the 1980's, Montreal's asphalt cartel was formed in 2000, by four of the dominant construction firms active in and around Montreal (see Radio Canada (2013)). The participating firms met to decide: (i) the quantity of asphalt to be produced by each member, (ii) the territory of each member, and (iii) the price of raw materials

Théberge (2013a).

[9]See minute 7:25 of Enquête, Radio Canada (2009)

[10]See minute 13:50 of Enquête, Radio Canada (2009).

[11]See paragraphs 684 to 686 and 724 of Jean Théoret's Testimony from the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, November 26th 2012, Théoret (2012).

[12]For an example of this behaviour, see paragraphs 1102 to 1133 of Piero Di Iorio's testimony at the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, November 26th 2012, Di Iorio (2012).

[13]See paragraphs paragraphs 839-915 from Jean Théoret's testimony at the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, November 26th 2012, Théoret (2012).

for the production of asphalt. The initial firms concluded partnership agreements for the asphalt market with other firms and extended the number of participants to include all six of the firms active in Montreal.[14]

On October 15th 2009, the television news magazine *Enquête* outlined allegations of collusive and corrupted practices in Montreal's procurement contracts. Shortly after, on October 23rd 2009, the government announced the formation of a new division to investigate the collusion and corruption in the construction industry, Opération Marteau. Almost two years later, on October 11th 2011, they announced a commission public inquiry to further investigate matters. The commission's mandate was to: (i) examine the existence of schemes and, where appropriate, to paint a portrait of activities involving collusion and corruption in the provision and management of public contracts in the construction industry (including private organizations, government enterprises and municipalities) and to include any links with the financing of political parties, (ii) paint a picture of possible organized crime infiltration in the construction industry, and (iii) examine possible solutions and make recommendations establishing measures to identify, reduce and prevent collusion and corruption in awarding and managing public contracts in the construction industry.[15]

4 Data and Descriptive Statistics

We use borough-level asphalt contract data for Montreal and Quebec City, obtained through access to information requests at the Municipal Clerk's office. These requests yielded data on procurement auctions from 2007 to 2013 for both cities. Additional information was collected in the Cahiers d'appels d'offres (Call for tender books). We have information on all submitted bids (raw bids and transportation charges), and the identity of the winner. We also collected from the Quebec Ministry of Transport the addresses of all the asphalt plants in Montreal and Quebec City, and we have celled the addresses of the central point of reception for each neighbourhood in the two cities. This allows us to calculate the distances for delivery of the asphalt for each tender. For Montreal the books also contain information on the capacity of each firm for each year.

[14]See paragraphs 575 and 677-696 of Gilles Théberge's testimony from the Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction, May 23rd 2013, Théberge (2013a).

[15]See https://www.ceic.gouv.qc.ca/la-commission/mandat.html.

4.1 Contracts

Tables I and II describe the contracts awarded over the sample period in Montreal and Quebec City respectively. In Quebec City, from 2007 to 2013, there were 46 individual calls for tender to supply of asphalt with an average of 3.45 bids per tender. In the nineteen boroughs of Montreal, during the period 2007-2013, there were 616 calls for tender, with an average of 3.41 bids per auction. From this table we can already see that there was a large increase in the number of bids per contract in Montreal post investigation. In contrast, the number of bids fell in Quebec City.[16]

Table I: Descriptive statistics for Montreal

Year	Total $ awarded	Nbr of Contracts	Nbr bidding firms	Nbr contracting boroughs	Avg nbr bids per contract	Avg tons of asphalt per contract
2007	3126490	73	6	12	2.95	637
2008	1973805	61	4	11	2.51	443
2009	2986879	81	6	14	2.37	392
2010	2976588	174	8	19	3.61	244
2011	1967165	149	8	15	4.41	189
2012	2571765	43	8	16	3.65	878
2013	3098876	35	7	16	2.89	1287
Total 2007-2009	8087174	215		**Avg. 2007-09**	2.6	490
Total 2010-2013	10614394	401		**Avg. 2010-13**	3.85	382
Total	18701568	616				

Tables III and IV break contract allocation down by firm for Montreal and Quebec City. We can see that in Montreal prior to the investigation one firm received over half the contracts, and that three firms dominated the market. After the investigation the market share of two of these firms fell dramatically, but increased for the smallest of the three. We can also see the arrival of the three entrants with two of them picking up around 35% of the market. Quebec City is also dominated by a small number of firms. Firms 1 and 6 win large fractions of the contracts in both time periods, while firms 7 and 2 are active in the early and late period respectively.

[16]The average number of tons per contract increases significantly in 2013, but this can largely be explained by one contract. In 2013, the district of Ville-Marie ordered 20 000 tons in a single contract. The average without this contract is 736.38 tons per contract. Overall, we observe that in 2010 and 2011 districts ordered smaller quantities of all asphalt types while in 2012 and 2013, they switched to fewer asphalt types but ordered in greater quantities.

Table II: Descriptive statistics for Quebec

Year	Total $ awarded	Nbr of Contracts	Nbr bidding firms	Nbr contracting boroughs	Avg nbr bids per contract	Avg tons of asphalt per contract
2007	1576516	7	6	7	3.57	3539
2008	1450210	7	6	7	3.57	3552
2009	2874595	8	7	8	3.88	4361
2010	2010589	6	6	6	3.5	5243
2011	2928229	6	4	6	3.17	5562
2012	2628661	6	4	6	2.83	5435
2013	2550961	6	5	6	3.67	5358
Total 2007-2009	5901321	22		**Avg. 2007-09**	3.68	3842
Total 2010-2013	10118440	24		**Avg. 2010-13**	3.29	5399
Total	16019761	46				

Table III: Firm statistics for Montreal

Firm	Nbr of won auctions	Winning Percentage	Nbr of participation	Percentage of participation	Nbr won bids/ Nbr participations	Average share
2007-2009						
1	146	67.90%	210	97.70%	69.50%	73.92%
2	41	19.10%	54	25.10%	75.90%	20.37%
3	2	0.90%	69	32.10%	2.90%	0.01%
4	21	9.80%	137	63.70%	15.30%	5.78%
5	1	0.50%	49	22.80%	2.00%	0.01%
6	4	1.90%	41	19.10%	9.80%	0.36%
	215	100.00%				
2010-2013						
1	178	44.40%	399	99.50%	44.60%	38.88%
2	12	3.00%	128	31.90%	9.40%	7.93%
3	18	4.50%	144	35.90%	12.50%	6.48%
4	93	23.20%	199	49.60%	46.70%	17.46%
5	9	2.20%	169	42.10%	5.30%	1.94%
6	3	0.70%	162	40.40%	1.90%	0.04%
7	65	16.20%	212	52.90%	30.70%	24.27%
8	20	5.00%	126	31.40%	15.90%	11.87%
9	3	0.70%	4	1.00%	75.00%	0.42%
	401	100.00%				

5 Empirical analysis of the impact of the investigation

In this section we evaluate the effect that the announcement of Opération Marteau in October 2009 had on pricing in Montreal. We employ a difference-in-difference strategy in which we compare changes in prices in the treatment market (Montreal) to those in

Table IV: Firm statistics for Quebec

Firm	Nbr of won auctions	Winning Percentage	Nbr of participation	Percentage of participation	Nbr won bids/ Nbr participations	Average share
2007-2009						
1	13	59.10%	22	100.00%	59.10%	55.46%
2	0	0.00%	22	100.00%	0.00%	0.00%
3	0	0.00%	2	9.10%	0.00%	0.00%
4	0	0.00%	6	27.30%	0.00%	0.00%
5	0	0.00%	3	13.60%	0.00%	0.00%
6	8	36.40%	22	100.00%	36.40%	38.90%
7	1	4.50%	4	18.20%	25.00%	11.62%
	22	100.00%				
2010-2013						
1	5	20.80%	18	75.00%	27.80%	26.85%
2	5	20.80%	23	95.80%	21.70%	24.99%
3	0	0.00%	4	16.70%	0.00%	0.00%
4	1	4.20%	9	37.50%	11.10%	8.23%
5	0	0.00%	1	4.20%	0.00%	0.00%
6	13	54.20%	24	100.00%	54.20%	49.74%
7	0	0.00%	0	0.00%	0.00%	0.00%
	24	100.00%				

a control market (Quebec City), before and after the start of the investigation. This approach hinges on a number of important assumptions. The first is that we are able to properly identify the cartel period. The second is that after the investigation prices returned to competitive levels, and the third is that we are able to adequately control for market-specific developments during the operation of the cartel.

Since contracts in both our markets are negotiated only once a year in the spring, we establish our structural break in 2010, assuming that bidding in Montreal became competitive again starting at this point. We use contracts in Quebec City as a competitive benchmark against which to compare the behavior of firms receiving the treatments, in the spirit of the test proposed by Porter and Zona (1999; 1993) and in line with Clark and Houde (2014). The choice of Quebec City as a competitive benchmark is justified by the fact that, to our knowledge, its asphalt market has never been cited during Opération Marteau or the Charbonneau Commission. Our understanding is that the initial focus of Opération Marteau was on Montreal based on the allegations in the *Enquête* broadcast. Quebec City is located a reasonable distance from the suspected markets (about 250 kms), which is important, since many markets surrounding Montreal have been cited and therefore, would not be reliable controls. Specifically, almost all the suburbs located on the North and South shores of the island of Montreal have been mentioned in the investigation. Furthermore, calls for tenders in the two cities are similar in many ways: (i) the auctions are held during the same period, (ii) the auctions are designed per borough, and (iii) the yearly budget for asphalt for the two cities is usually not too different.

On the other hand, there are some important drawbacks to using Quebec City in this context. First, as alluded to above, the calls for tender are for very different quantities of asphalt, since in Montreal there are up to eleven auctions per borough per year (one per asphalt type), while in Quebec City there is just one per borough. Second, there was a municipal reorganization of the boroughs in Quebec City that coincided with the start of the investigation. Since the boroughs are now bigger, demand patterns for asphalt could change, possibly favouring larger firms that can satisfy bigger contracts. Finally, and potentially the most problematic, is the change in legislation that took place in Quebec starting in 2009 that established a limit on the number of contracts that a firm could win in any given year.

To address these concerns, we focus our attention on quantities in tonnes of asphalt, and we have run specifications in which we control for the type of asphalt being requested. Regarding the change in legislation we define a winner as the lowest bidder even if the firm has won already half the contracts. Note that this solution is not perfect as bidders may have adjusted their behaviour to this change in legislation, for instance by bidding more intensely on a smaller set of contracts. There is nothing in the data that would allow us to address this concern. The data from Quebec remain our best representation of a potentially competitive control market.

5.1 Prices

In this subsection we study the effect of the investigation on prices. We do so in two steps. We first present a simple comparison of averages and graphical analysis, and then we present a more rigorous regression analysis.

5.1.1 Descriptive analysis

We start with a simple comparison of average prices before and after the announcement in the two markets. Table V presents average raw bids, average transportation charges, and average total bids in our sample. The bottom right-hand corner presents the difference-in-difference estimates, with Montreal as treatment group, and Quebec City as control.

In the last rows and last two columns we decompose these estimates to present cross-sectional (row) and time-series (columns) differences.

The first thing to note from the table is that, prior to the investigation raw bids were different in Montreal and Quebec City. Raw bids in Montreal were \$75.94 per tonne, but only \$59.70 in Quebec City. In the post-announcement sample the differences between Montreal and Quebec are considerably smaller. Note that this is due to changes both in the control market and in the treatment market after the announcement. Prices increase by almost \$5 in Quebec City and fall by over \$5 in Montreal. Overall, the difference-in-difference is \$10.68 for all bids, and \$13.67 for winning bids.

The difference-in-difference estimate for transportation costs is also negative suggesting that they fell in Montreal relative to Quebec City. Transportation costs fall in Montreal, while they increase in Quebec City. However, it is important to note is that starting in 2010 some of the transportation charges in Montreal are actually negative. These negative charges are for asphalt types that are collected by the city. When the city picks up the asphalt the winning price is still the smallest final bid, but the transportation charges are defined by the city. Before 2010 this was a fixed constant based on the distance from the provider to the delivery sites. Afterwards the transport charges were defined according to: transport per ton $= (D - 10) * P$, where D is the distance for a round trip between the plant and the reception point and P is set to 0.25 in 2011, to 0.27 in 2012, and to 0.28 in 2013. If $D < 10$, the transport charges are negative. In Quebec City, the transport charges are defined by the city since every type is collected by municipal trucks. Transport charges for Quebec City were defined as follow: transport per ton $= D * k * Total\ Quantity$, where D is the distance between the firm's plant and the borough's reception point, k is a constant representing the cents per km/tonne. Before 2012, the city was fixing k at 65 cents per km/tonne and from 2012 onward, k was set to 70 cents per km/tonne.

Overall, using this simple comparison of averages we find that the difference-in-difference effect on total bids is \$15.80, suggesting the investigation had a large economic impact on bidding behaviour in Montreal's asphalt market. Note that the total effect combines both a change in raw bids and a change in transportation charges. Both fall in Montreal relative to Quebec. More specifically, for components, the price falls in Montreal and increases in Quebec City, leading to a negative difference-in-difference coefficient.

These findings are confirmed in Figure 1, which plots the evolution of raw bids, transportation charges, and final bids over time in Montreal and Quebec City. The top panel plots raw bids and shows that prices are higher in Montreal than in Quebec City prior

Table V: Comparison of average bids and transport charges

Average raw bids

	Before	After	After-Before
Montreal	75.94	70.02	-5.92
Quebec City	59.70	64.46	4.76
Mtl-Qc	16.24	5.56	-10.68

Average raw winning bids

	Before	After	After-Before
Montreal	75.71	67.02	-8.69
Quebec City	57.63	62.61	4.98
Mtl-Qc	18.08	4.41	-13.67

Average transport charges

	Before	After	After-Before
Montreal	7.51	7.40	-0.12
Quebec City	6.52	7.61	1.09
Mtl-Qc	1.00	-0.21	-1.20

Average winning transport charges

	Before	After	After-Before
Montreal	6.19	5.42	-0.77
Quebec City	5.13	6.49	1.36
Mtl-Qc	1.06	-1.07	-2.13

Average final bids

	Before	After	After-Before
Montreal	83.45	77.42	-6.03
Quebec City	66.22	72.07	5.85
Mtl-Qc	17.23	5.35	-11.88

Average final winning bids

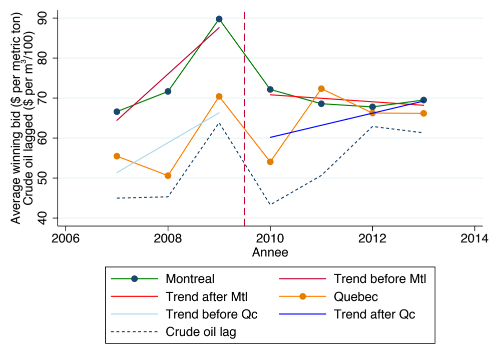
	Before	After	After-Before
Montreal	81.89	72.44	-9.46
Quebec City	62.76	69.1	6.34
Mtl-Qc	19.14	3.34	-15.8

to the investigation, and that in both cities, raw bids seem to roughly follow the price of crude oil (with a lag), until the start of the investigation at which point prices in Montreal diverge. Transport charges are always higher in Quebec City than in Montreal, but following the differences increase with prices in Quebec City rising and those in Montreal falling. Finally, the bottom panel plots total bids, and highlights that prior to the investigation the trends in the two cities were common. It is clearly visible from the figure that following the investigation the trends diverge.

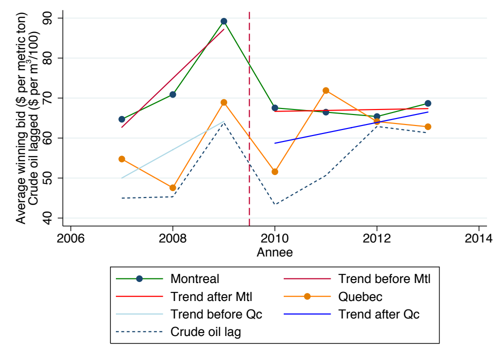
It is important to note again that the timing of the transport charge decrease for Montreal appears to coincide with the change in the formula for city-collected asphalt types. Because the transport charges change so dramatically in Montreal and possibly for mechanical reasons, our focus for the remainder of the paper will be on raw bids. Moreover, although we present our empirical analysis below using the full 2007-2013 pre and post investigation periods, we have also considered specifications where we use different windows and our results are very similar.

Figure 1: Average bids

(a) Raw bids (all)

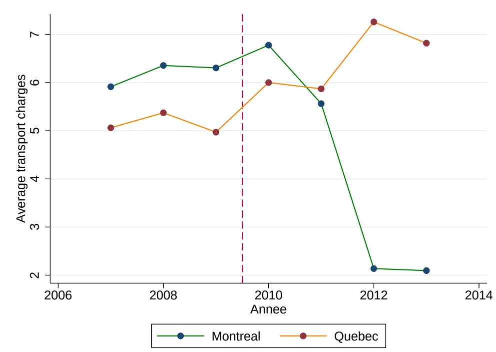


(b) Raw bids (winning)

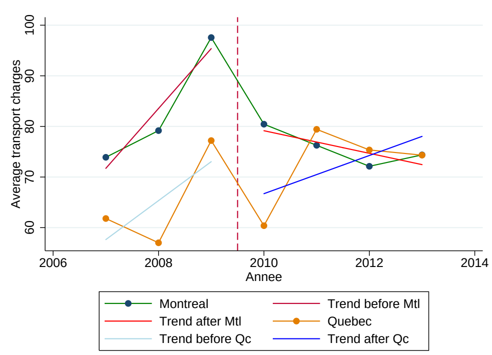


(c) Transport costs (all)

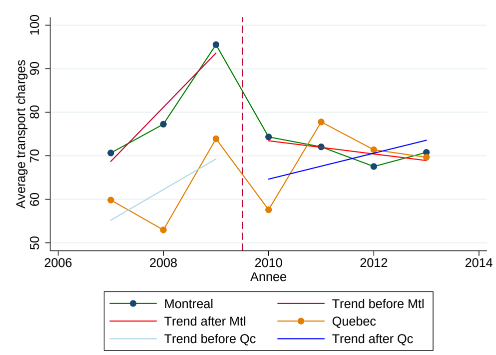
(d) Transport costs (winning)



(e) Total bids (all)



(f) Total bids (winning)



5.1.2 Difference-in-difference regression

The general message from Table V and Figure 1 is that changes in prices following the investigation in Montreal were more important than in the competitive control market of Quebec City, despite the fact that these two cities had similar trends in prices prior to the investigation. This qualifies Quebec City as a valid comparison group for Montreal such that we can interpret the difference-in-difference estimates of the impact of the investigation presented above as causal.[17] Next we investigate the extent to which the descriptive results presented above are robust and not driven by other city- and/or borough-level factors that may act as confounding factors of our causal effect of interest.

Our main econometric specification is:

$$B_{i,a} = \alpha + \delta_1 Mtl_{i,a} * Marteau_{i,a} + \delta_2 Marteau_{i,a} + \delta_3 Mtl_{i,a} + \beta X_{i,a} + \epsilon_{i,a}, \tag{1}$$

where $B_{i,a}$ is the raw bid of bidder i in auction a taking place in borough r, and where $X_{i,a}$ includes year, borough and asphalt-type fixed effects, and variables that capture (i) the proportion of contracts in borough r won by firm i in the previous year (Con), (ii) the lagged average price of crude oil, (iii) the distance between the production site and the delivery site (Distance), (iv) the HHI, (v) the quantity of asphalt in the call for tender and (vi) the firm's potential capacity defined as the maximum quantity ever bid on by the firm in our sample (Capacity).[18] $Marteau$ indicates the start of Opération Marteau in 2010 and Mtl is a dummy for Montreal. The parameter of interest is δ_1, which can be interpreted as the difference between the change in the price in Montreal relative to the change in price in Quebec from before to after the investigation started. Standard errors are clustered at the borough-year level, but our results are robust to different forms of clustering (for instance city, and city-year).

Results from the estimation of equation 1 for raw bids are presented in Table VI. We present results for all bids and also for winning bids. We focus our discussion on winning bids. Column (4) reproduces the findings from Table V. From columns (5) and (6) we

[17]Below we test formally for the similarities of trends and the robustness of our results to their inclusion. It should also be noted that, despite the evidence provided at the beginning of this section that there was no collusion in Quebec City in the pre-investigation period, the reader might nonetheless be concerned that collusion extended into this market. Given the similar trends experienced by the control, if there was in fact collusion, our findings still provide causal estimates of the effect of the investigation on prices, since the investigation focused on Montreal initially. In this case our results would underestimate the effect of collusion on prices.

[18]For Quebec City we use the HHI that would have prevailed had there been no change in legislation regarding the maximum number of contracts.

can see that adding controls yields only a slightly smaller estimate of the effect of the investigation of $10.23 , or 13.51% . Overall the results are consistent with those presented in the descriptive analysis presented in section 5.1.1.

Table VI: Difference-in-difference for the submitted raw bids

Dependent Variable	Raw bids					
Sample	All bids (1)	All bids (2)	All bids (3)	Winning bid (4)	Winning bid (5)	Winning bid (6)
MontrealXMarteau	-10.677***	-8.679***	-8.693**	-13.670***	-10.770***	-10.231***
	(3.303)	(3.321)	(3.347)	(3.472)	(3.690)	(3.484)
Montreal	16.239***	9.411***	8.314***	18.078***	8.920***	6.141
	(2.953)	(1.913)	(2.991)	(3.104)	(1.822)	(4.766)
Marteau	4.760*	-5.678*	-6.042*	4.982*	-4.681	-5.472
	(2.674)	(3.188)	(3.633)	(2.862)	(3.623)	(3.960)
Crude_oil_lag		0.128***	0.133***		0.135***	0.132***
		(0.003)	(0.004)		(0.003)	(0.004)
Capacity			0.008			0.130***
			(0.023)			(0.036)
Quantity			-0.140			-0.217
			(0.135)			(0.155)
Distance			-0.017			-0.088**
			(0.025)			(0.036)
CON			-2.228***			1.389**
			(0.648)			(0.641)
HHI			-2.606			-7.747
			(4.423)			(4.921)
Borough effects	No	Yes	Yes	No	Yes	Yes
Year effects	No	Yes	Yes	No	Yes	Yes
Type effects	No	Yes	Yes	No	Yes	Yes
Observations	2,263	2,263	2,263	662	662	662
R-squared	0.128	0.726	0.731	0.213	0.893	0.913
Average outcome	70.92	70.92	70.92	69.37	69.37	69.37

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. *Crude oil lag* is the price of the crude oil lagged. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. For Quebec City we use the one that would prevail without the change in legislation in 2009. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

The R-squared of the regressions suggests that the specification with controls does fairly well in explaining the variation in the bids and in the winning bids, 73.1% and 91.3% respectively.[19]

5.1.3 Robustness

We have analyzed the robustness of the effect of the investigation on prices with respect to the choice of controls, different windows around the start of the investigation, and concerns related to institutional features of the market. Overall, we conclude that the descriptive (and graphical) effect of the investigation on prices identified from Table V (and Figure 1) is robust to the specification of the empirical model, sample selection around the date of the investigation, and to different features of our market and data. Estimation results and a discussion are organized in seven sections of Appendix B (for online publication).

5.2 Market structure

In this subsection we study the effect of the investigation on market structure. As we did for prices, we first present a simple comparison of averages and graphical analysis, and then we present a more rigorous regression analysis.

5.2.1 Descriptive analysis

Recall from above that in Montreal three new firms entered the market following the investigation. In contrast, in Quebec City, no firms enter and one firm no longer participates in any calls for tender. Table VII presents a comparison of averages for the number of bidders per auction and market shares of dominant firms in Montreal and Quebec City, be-

[19] In Appendix B we present formal tests for the presence of common trends in prices between Montreal and Quebec City before the investigation, which is the main identifying assumption of the difference-in-difference estimation method. A violation of this assumption would imply that our estimates are non-causal. Panel A of Table A.1 shows that the hypothesis of linear trends is strongly rejected in our data, whereas Panel B shows that the coefficients of $MontrealXYear2008$ and $MontrealXYear2009$ are very similar and not statistically different (i.e., large p-values of the difference) for the majority of our specifications. This evidence is compatible with the non-linearities in prices depicted in Figure 1. To assess the robustness of our results to the possible violation of the common trend assumption, in Table A.2 we report estimates obtained with the same specification used in Table VI but adding heterogenous linear (Panel A) and non-linear trends (Panel B). We conclude that our estimates are robust to this possible threat to the identification strategy since, once we control for heterogeneous trends, our estimates are comparable in sign and magnitude to our baseline estimates.

fore and after the investigation. The top panel shows that the number of participants per call increased in Montreal after the investigation by over 1.5 bidders. relative to Quebec City The bottom panel shows that the market share of the dominant firm fell in Montreal. Note that because in Quebec City there is a geographical change in the boroughs, for the difference-in-difference we cannot measure dominance at the borough level but only at the city level. To address this, in Figure 2 we present the share of the dominant firm (as measured by total amounts of contracts won) in each borough in Montreal before and after the investigation. The incumbent firms win a smaller share of contracts after the investigation and in some cases are no longer the dominant firm in the borough afterwards.

Table VII: Average number of bidding companies, and share in Montreal and Quebec city

Avg number of bidding firms

	Before	**After**	**After-Before**
Montreal	2.60	3.75	1.15
Quebec City	3.68	3.29	-0.39
Mtl-Qc	-1.08	0.46	1.54

Average share of dominant firm (year)

	Before	**After**	**After-Before**
Montreal	73.64	44.18	-29.46
Quebec City	71.41	71.71	0.30
Mtl-Qc	2.23	-27.53	-29.76

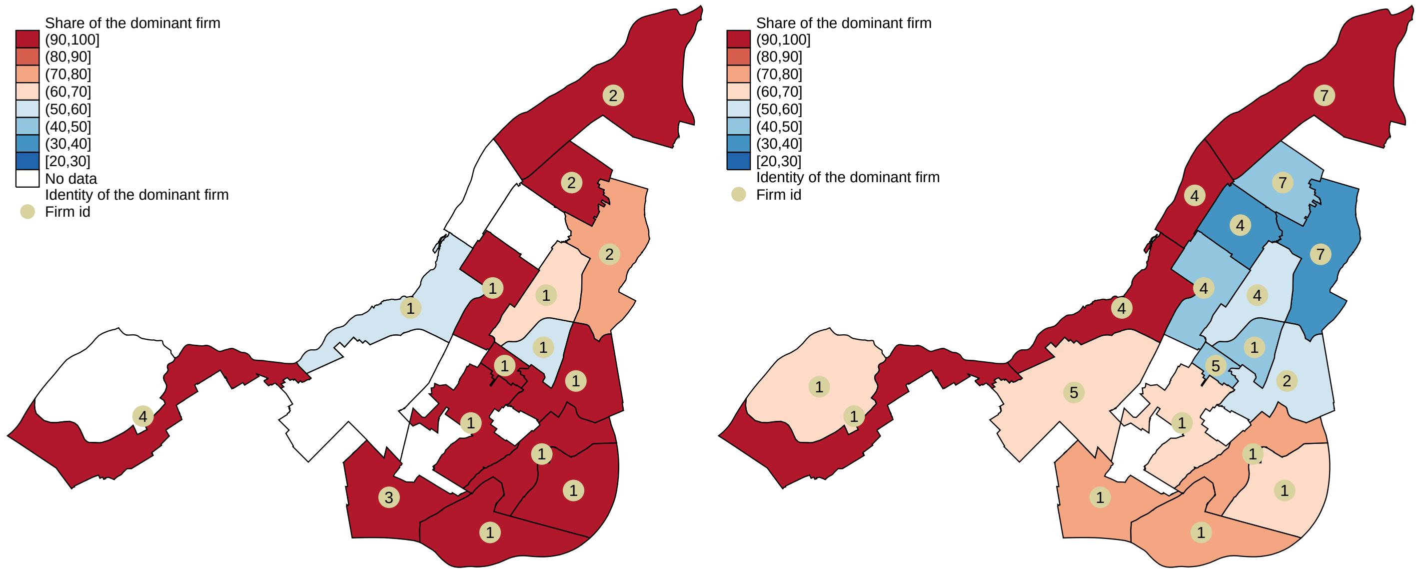
5.2.2 Difference-in-difference regression

Our main econometric specification is:

$$I_a = \alpha + \delta_1 Mtl_a * Marteau_a + \delta_2 Marteau_a + \delta_3 Mtl_a + \beta X_a + \epsilon_a, \tag{2}$$

where I_a represents the following outcomes in auction a: (i) number of bidders, (ii) number of employees of the winning firm, (iii) the number of plants owned by the winning firm, (iv) share of the dominant firm (at the year level), (v) distance from the firm's plant to delivery site, and (vi) average distance between firms' plants and their offices. The X_a includes the same variables and fixed effects as above.

Results from the estimation of equation 2 are presented in Table VIII. The investigation led to an increase in the number of bidders of 61.36% and a decrease in the size of the



(a) Before the announcement (b) After the announcement

Figure 2: Dominance of firms and market-share in Montreal

winning firm of 9.7% , as measured by the number of plants owned by the winning firm.[20] The share of the dominant firm fell by 63.69% in Montreal relative to Quebec City. The average distance between a firm's plants and its HQ decreased by 356.94% . This result is driven by the fact that one Quebec City firm's office is located 200 km away. It was not winning before 2010, but won 20.8% of contracts between 2010 and 2013, which increased the average distance in Quebec City for that period. The results also suggest that the average distance between the winner's plants decreased by 22.06% .[21] Overall, Montreal's market structure appears to have become more competitive after the investigation.

[20]Note that all of Quebec City's firms have only one plant each.

[21]The market structure results are robust to the same set of robustness checks that we ran for the price outcome, and are available from the authors upon request

Table VIII: Difference-in-difference for the market structure

Sample	All auctions					
Dependent variables	Number of Bidders	Number of Employees	Number of Plants	Share of the Dominant firm	Distance from Delivery site	Distance from office
	(1)	(2)	(3)	(4)	(5)	(6)
MontrealXMarteau	1.598***	-158.839	-0.287***	-37.022***	-2.748	-66.705***
	(0.323)	(108.100)	(0.106)	(9.588)	(1.982)	(23.369)
Montreal	0.189	796.767***	2.417***	-40.861	15.513***	14.702***
	(0.370)	(268.664)	(0.234)	(30.947)	(4.123)	(4.414)
Marteau	-0.902**	111.347	0.140	-8.644	2.697	50.129**
	(0.449)	(181.732)	(0.163)	(13.007)	(2.694)	(21.956)
Crude oil lag	-0.001	-0.668*	-0.001	0.008	0.002	0.012
	(0.001)	(0.385)	(0.001)	(0.029)	(0.007)	(0.030)
Capacity	-0.016***	27.473***	0.029***	-1.396	-0.298**	0.542***
	(0.006)	(2.868)	(0.007)	(1.757)	(0.121)	(0.066)
Quantity	0.021	24.842***	0.042**	-16.630	0.241	0.926
	(0.025)	(7.360)	(0.018)	(10.303)	(0.231)	(0.825)
Distance	-0.006	-4.206	-0.017*	2.174		-0.157
	(0.007)	(2.624)	(0.009)	(1.685)		(0.102)
CON	-0.354***	212.293***	0.194*		-3.596***	-1.009
	(0.135)	(46.802)	(0.108)		(1.108)	(2.651)
HHI	-0.464	-283.971	-0.086		3.921	-33.456
	(0.819)	(252.580)	(0.239)		(4.462)	(31.845)
Year effects	Yes	Yes	Yes	No	Yes	Yes
Type effects	Yes	Yes	Yes	No	Yes	Yes
Borough effects	Yes	Yes	Yes	No	Yes	Yes
Observations	662	641	662	14	662	662
R-squared	0.697	0.764	0.575	0.796	0.736	0.396
Average outcome	3.418	542	2.524	49.64	15.87	16.18

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on the number of bidders (1), the number of employees (2), the number of production plants (3), the share of the yearly dominant firm (4), the distance between the winner's plant and the delivery site (5), and the average distance to the production sites of the winner from its HQ (6). The sample consists of all auctions in Montreal and Quebec City from 2007 to 2013. $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2005 to 2009 included). $Montreal$ is a dummy variable = 1 if the observations are those of Montreal. $Crudeoillag$ is the price of the crude oil lagged. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is the proportion of contract won by the firm i in the borough x the previous year. HHI is the yearly Herfindahl index of each city. SEs are clustered at borough and year levels, except for column (4) where the SEs are clustered at city and year level. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

6 Decomposition of the price effect

We have shown that, following the investigation, raw bids fell by \$13.67 in Montreal relative to Quebec City.[22] We have also described how, after the investigation, three new players entered the Montreal market, which led to a significant increase in the number of bidders per auction. Although informative, these reduced-form results do not allow us to determine the role that entry played in the price reduction. Therefore, we turn to structural techniques to determine what part of the price decrease can be explained by the increase in the number of bidders and what part by a change in incumbent bidding behaviour (by which we mean their ability to select and coordinate on profitable collusive pricing strategies and monitor bahavior to prevent defection).

We use techniques developed by Guerre et al. (2000) (GPV) to disentangle the entry-deterrence and coordination effects by simulating what bidding would have looked like had entry not occurred after the investigation. Our approach is to estimate bidding functions during the post-cartel period in Montreal when all $N = 9$ firms (incumbents and entrants) are present in the market to back out the costs of each firm. We then simulate counter-factual bids under the scenario that the three entrants had not in fact entered the market. Finally, we compare these prices to those estimated using our difference-in-difference approach in order to quantify the two effects. It is important to note at the outset that we are assuming that auctions are independent despite the fact that firms in Montreal are constrained to bid the same price for each asphalt type in each borough. In this section, we simply work with bids per metric tonne of asphalt.[23]

Any estimator of the entry-deterrence effect requires determining a counterfactual price when there are only 6 firms (the incumbents) acting as potential competitive participants. This, in turn, requires a model of endogenous auction participation. We assume that one of the firms always participates in the auction. We are motivated in this assumption by the fact that in our dataset, there is a single firm (firm 1) with a participation rate close to 100% in both the collusive and competitive phases. For the other firms, there have been a variety of endogenous participation models proposed in the literature, and results

[22]For simplicity, we present results in this section using difference-in-difference estimates derived without controls, but have also performed the estimation and simulation using normalized bids. Results from the decomposition are very similar and are available from the authors upon request.

[23]Note that this means that, like most of the empirical auctions literature, we also ignore the fact that the auctions are run simultaneously and bidders may have preferences over combinations of auction outcomes. Recently, Gentry et al. (2015) have developed and estimated a model in which bidders have preferences over combinations.

are sensitive to the selected model. In order to overcome this difficulty, we develop and estimate simple nonparametric bounds on the entry deterrence effect that hold across a range of models with heterogeneous participation costs.[24]

Therefore, we develop and estimate nonparametric bounds on the entry-deterrence effect that hold across a range of models with heterogeneous participation costs. When N falls there are two conflicting effects on prices: a *competition effect* and a *participation effect* (see Levin and Smith (1994) and Li and Zheng (2009)). With fewer potential bidders the competition effect suggests that prices should rise, since bidding is less aggressive. However, the participation effect works in the opposite direction, as bidders will be more inclined to participate when they face fewer potential rivals. Our bounds are pinned down by considering the two extreme cases for the participation effect. The upper bound is computed under the assumption of exogenous participation. By this we mean that the probability that a fraction x of firms participates is the same when $N = 6$ as when $N = 9$ (and where the latter is estimated as the empirical frequency using the Montreal data over the competitive phase). In other words, the participation effect is zero. The lower bound is computed assuming homogeneous participation costs, which yields the maximum participation effect. If instead participation costs were heterogeneous, then marginal participants would have higher participation costs, and hence the increase in participation would be smaller. We show that the bounds are sharp, in the sense that each can arise for a certain distribution of the participation cost.

6.1 Model

Since firm 1 always participates, we assign the participation cost of 0 to this firm, and only model the participation decisions of the other *fringe* firms. Following Athey et al. (2011), we assume that the participation cost is heterogeneous, and distributed according to some distribution $H(\cdot)$. This model includes as a special case the homogenous participation cost as in Levin and Smith (1994), Li and Zheng (2009), Bajari et al. (2014) and Krasnokutskaya and Seim (2011).

We first describe the equilibrium of the participation and bidding game, following Athey et al. (2011). In our model, participation and bidding stages are independent in the sense that participation only affects bidding inasmuch as it affects the number of fringe

[24]Marmer et al. (2013) develop nonparametric tests that formally discriminate among alternative models of entry in first-price auctions, but they also allow for a class of models that allow for selective entry in auctions.

firms participating in the auction.

We begin with the bidding stage assuming there are n firms that have chosen to participate. The bidders draw their costs iid from some distribution $F(\cdot)$. This is true for both the always-participating firm and the fringe firms, so there are no asymmetries in the bidding game. This is motivated by the fact that in our data, while the always-participating firm participates in almost all auctions, its winning rate is not significantly different from that of some other firms during the competitive phase.[25]

At the bidding stage, the bidders who have chosen to participate know how many rivals they face. In the unique symmetric Bayesian-Nash equilibrium of the bidding game with n participants, the firms bid according to

$$B(c) = c + \frac{\int_c^{\infty}(1-F(u))^{n-1}du}{(1-F(c))^{n-1}},$$

and derive expected profit of

$$u(c,n) = (B(c)-c)(1-F(c))^{n-1}.$$

We now consider the participation stage. At the participation stage, $N-1$ fringe firms draw their participation costs e_i, simultaneously and independently from distribution $H(\cdot)$. For simplicity, we assume that $H(\cdot)$ has full support R_+. A fringe firm chooses to participate if and only if its participation cost is below a cutoff $\overline{e}(N)$. This cutoff is found by solving the game backwards, as follows. If all rival fringe firms adopt this cutoff, then each will participate with probability

$$\rho(N) = H(\overline{e}(N)),$$

so a given fringe firm will expect to earn profit equal to $\Pi(\rho(N), N)$, where

$$\Pi(\rho, N) = \sum_{n=0}^{N-2} \binom{N-2}{n} \rho^n (1-\rho)^{N-2-n} Eu(c, n+2).$$

[25] Ideally, all firms would be modelled asymmetrically. This, however, would create two kinds of difficulties. First, asymmetric auctions are difficult to solve. Second, and more importantly, auction asymmetries would lead to an asymmetric participation game with multiple equilibria, necessitating an involved econometric analysis that would address equilibrium selection as e.g. in Bajari et al. (2010). But since we are also considering a counterfactual scenario with fewer firms, we would need to address equilibrium selection directly.

This formula reflects the fact that a given fringe firm has $N-2$ rival fringe firms, and that the leading firm always participates. If there are m rival firms participating, the total number of participants is $m+2$, which includes both the leading firm and the given fringe firm that contemplates participating. In a perfect Bayesian equilibrium, a fringe firm will participate if and only if $e_i \leq \Pi(\rho, N)$. This means that the participation cutoff $\overline{e}(N)$ is equal to the the above expected profit,

$$\overline{e}(N) = \Pi(\rho(N), N).$$

This equation will be fundamental in our bounding approach for the counterfactual price. It can be equivalently stated in terms of the participation probability only, as

$$\Pi(\rho(N), N) = H^{-1}(\rho(N)). \tag{3}$$

This equation is derived from the fact that the participation cutoff must be equal to the $\rho(N)$'s *quantile* of the participation cost distribution, $H^{-1}(\rho)$. Since the expected profit $Eu(c, n)$ is decreasing in n, the l.h.s. of the above equation is decreasing in the probability of rival participation $\rho(N)$, while the r.h.s. is increasing in this probability. This implies that there is a unique equilibrium entry probability $\rho(N)$, and a unique symmetric equilibrium of the complete participation and bidding game.

By *revenue equivalence*, the expected profit of a bidder in the auction with n participants is equal to

$$E[u(c, n)] = \frac{1}{n} E[c_{2:n} - c_{1:n}] \equiv u_*(n). \tag{4}$$

Using this fact, and denoting the binomial weights by

$$\pi(n, \rho, N) = \binom{N-2}{n} \rho^n (1-\rho)^{N-2-n},$$

allows us to rewrite the expression for ex-ante expected profit function as

$$\Pi(\rho, N) = \sum_{n=0}^{N-2} \pi(n, \rho, N) u_*(n).$$

6.2 Identification

Identification of the production cost

As in Guerre, Perrigne and Vuong (GPV; 2000), we identify the production costs c_i in each auction by applying the inverse strategy transformation. The conditional CDF of b_i is denoted by $G(\cdot|n)$ and the PDF by $g(\cdot|n)$, and these are directly identifiable from the data. In the auction with n bidders, the inverse bidding strategy is given by

$$\phi(b|n) = b + \frac{1}{n-1}\frac{1-G(b|n)}{g(b|n)}. \tag{5}$$

So the distribution $F(\cdot)$ is identifiable according to

$$F(c) = G[\phi^{-1}(c|n)\,|n].$$

Bounds on the counterfactual price

Our ultimate goal is to identify the entry-deterrence effect, defined as the difference

$$\Delta p = p(N') - p(N),$$

where $p(N)$ is the actual competitive price with N firms, $p(N')$ is the counterfactual competitive price with $N' < N$ firms. Here, N is the actual number of firms in Montreal after the breakup of the cartel, and N' is the number of firms in the cartel before the breakup. In our application, $N = 9$ and $N' = 6$. The key is to identify the counterfactual price $p(N')$. In our model the counterfactual price is driven solely by the entry probability $\rho(N')$.

The participation probability $\rho(N)$ is directly identifiable from the data. But the distribution of the participation cost is *not* identifiable in our model. Indeed, from (3), we are only able to identify its $\rho(N)^{\text{th}}$ quantile, $H^{-1}(\rho(N))$.[26] But for our application, we are not interested per se in the distribution of the participation cost, but only to the extent that it affects the counterfactual price with $N' < N$ potential bidders. We are interested in the prices conditional on *buying*. In our model, these prices depend only on the the

[26]Identification of the participation cost can be enhanced if there is an instrument that affects the participation cost but not the production cost. Alternatively, variation in N can also aid identification. Unfortunately, neither source of variation is available in our applicaiton.

participation probability ρ and are given by

$$P(\rho, N) = \sum_{n=1}^{N-1} w(\rho, n, N) p_*(n)$$

where, invoking revenue equivalence again, the expected price in an auction with n participants is given by the expected second-lowest cost,

$$p_*(n) = E[c_{2:n}],$$

and the weight function is given by

$$w(n, \rho, N) = \frac{\binom{N-1}{n} \rho^n (1-\rho)^{N-1-n}}{1-(1-\rho)^{N-1}}.$$

(The denominator in the weight reflects conditioning on there being at least one fringe firm participating.) The equilibrium price is then given by

$$p(N) = P(\rho(N), N).$$

As N is reduced to $N' < N$, the counterfactual price $p(N')$ will also change, but only because the participation probability $\rho(N)$ will change and the prices $p_*(n)$ get reweighted. One can easily show that the weights $w(\rho, n, N)$ and $\pi(\cdot, \rho, N)$ satisfy the stochastic dominance conditions

$$w(\cdot, \rho, N) \succ w(\cdot, \rho, N'), \qquad w(\cdot, \rho, N) \succ w(\cdot, \rho', N), \quad N' < N, \quad \rho' < \rho \tag{6}$$

$$\pi(\cdot, \rho, N) \succ \pi(\cdot, \rho, N'), \qquad \pi(\cdot, \rho, N) \succ \pi(\cdot, \rho', N), \quad N' < N, \quad \rho' < \rho. \tag{7}$$

Intuitively, increasing N leads to higher weights being put on higher realizations of the number of participants n in the Binomial distribution, both unconditionally (for the $\pi(\cdot)$), and conditionally on at least one firm participating (for the $w(\cdot)$).

These stochastic dominance conditions imply the following monotonicity facts concerning the ex-ante profit $\Pi(\rho, N)$ and the expected price $P(\rho, N)$. First, the ex-ante bidder profit $\Pi(\rho, N)$ must be decreasing in ρ. This is intuitive as a higher participation probability implies more weight put on larger n. Since $u_*(n)$ is decreasing in n, this implies that the ex-ante profit is smaller. Second, $\Pi(\rho, N)$ must be decreasing in N as higher N implies, keeping ρ fixed, more weight put on larger n. Similar considerations imply that

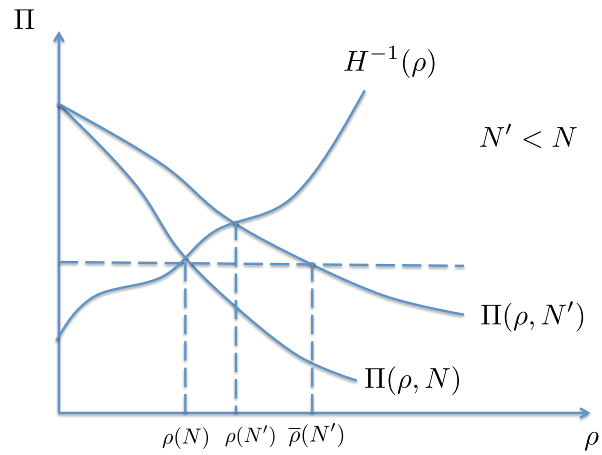


Figure 3: Counterfactual bounds

the expected price $P(\rho, N)$ is also decreasing in ρ and N.

The fact that $\Pi(\rho, N)$ is decreasing in both arguments implies that the participation probability, as the solution to (3), increases as N falls to N' (see Figure 3). The counterfactual participation probability is given by the intersection of the ex-ante profit curve $\Pi(\rho, N')$ and the participation cost quantile curve $H^{-1}(\rho)$. As this figure illustrates, the exogenous entry probability $\rho(N)$ is a lower bound for the counterfactual entry probability $\rho(N')$,

$$\rho(N') > \rho(N), \qquad N' < N.$$

Since we do not know $H(\cdot)$, $\rho(N')$ is not identifiable. However, as Figure 3 illustrates, the counterfactual probability can be bounded in an informative way. Specifically, we have

$$\rho(N') \in [\rho(N),\ \overline{\rho}(N')] \tag{8}$$

where $\overline{\rho}(N')$ is the participation probability in the (original) Levin and Smith model with homogeneous participation cost (given by the dashed line in Figure 3). That is, $\overline{\rho}(N')$ is determined as the probability that would equate the ex-ante profits with N and N' firms,

$$\Pi(\overline{\rho}(N'), N') = \Pi(\rho(N), N). \tag{9}$$

The counterfactual price $p(N')$ can be either lower or higher that $p(N)$. Under exogenous entry, the participation probability does not change, and the price would be unambiguously higher. Under endogenous entry, however, the participation probability will be higher with fewer bidders, N'. This is Li and Zheng's *participation effect* that works in the opposite direction. So the overall effect is in general ambiguous. But in a model with distributed participation costs as here, the participation effect could conceivably be small. This would be the case if the distribution $H(\cdot|x)$ put very small (think 0 in the limit) weight on the interval of participation costs

$$[\Pi(\rho(N), N),\ \Pi(\rho(N), N')],$$

so that there is in effect virtually no additional participation when N is reduced to N'. On the other hand, the participation effect is strongest for the atomic distribution of the participation cost, which results in the participation probability $\overline{\rho}(N')$. This case corresponds to the original endogenous participation model introduced in Levin and Smith (1993) and estimated in Li and Zheng (2009). The intuition here is that when the participation costs are heterogeneous, the marginal participants have higher participation costs, and hence there is less participation.

The bounds on the participation probability imply the following identifiable bounds on the counterfactual price

$$p(N') \in [P(\overline{\rho}(N'), N'),\ P(\rho(N), N')]. \tag{10}$$

In the next subsection, we develop nonparametric estimators for these bounds.

6.3 Estimation

The sample consists of T auctions, with individual auctions indexed by $t = 1, .., T$. The number of potential bidders is N, including the leading firm $i = 1$. We index the individual bidders by $i = 1, ..., N$. The data generating process takes the following form.

1. The participation costs e_i are drawn from $H(\cdot)$ for all fringe firms. The participation decision of firm i is denoted as $y_{it} \in \{0, 1\}$. The leading firm always participates, so $y_{1t} = 1$ in all auctions t. Fringe firm i participates if and only if $e_i \leq \overline{e}(N)$,

$$y_{it} = \begin{cases} 1, e_i \leq \overline{e}(N_t) \\ 0,\ \text{otherwise}\ . \end{cases}$$

This participation process results in a binomially distributed number of participants

$n_t = \sum_{i=1}^{N} y_{it}$.

2. Those firms that have chosen to participate, discover their production costs c_{it}, where c_{it} are iid and are distributed according to a cumulative distribution $F(\cdot)$, the same across all the firms. The participants bid in the auction according to

$$b_{it} = B\left(c_{it}|n_t\right). \tag{11}$$

If the leading firm is the sole participant, so that $n_t = 1$, then the auction is declared uncompetitive and is cancelled.

As in GPV, the c_{it}'s can be estimated by the plug-in method. The CDF $G(\cdot|n)$ of the bids can be estimated as the empirical CDF, and $g(\cdot|n)$ can be estimated by the kernel method:

$$\hat{G}(b|n) = \frac{\sum_{t=1}^{T}\sum_{i=1}^{N} y_{it} I[b_{it} \leq b, n_t = n]}{\sum_{t=1}^{T}\sum_{i=1}^{N} y_{it} I[n_t = n]}, \tag{12}$$

$$\hat{g}(b|n) = \frac{\sum_{t=1}^{T}\sum_{i=1}^{N} y_{it} \frac{1}{h} K\left(\frac{b_{it}-b}{h}\right) I[n_t = n]}{\sum_{t=1}^{T}\sum_{i=1}^{N} y_{it} I[n_t = n]}, \tag{13}$$

where $I[\mathcal{A}]$ is the indicator function of the event $\mathcal{A}$, $K(\cdot)$ is a suitable kernel function, and h is the bandwidth chosen as in GPV, $h = 1.06\hat{\sigma}_b L^{-1/5}$. The costs c_{it} are now estimated by the plug-in

$$\hat{c}_{it} = \hat{\phi}\left(b_{it}|n_t\right),$$

and their distribution is estimated as an empirical CDF

$$\hat{F}(c) = \frac{\sum_{t=1}^{T}\sum_{i=1}^{N} y_{it}\tau_{it} I[\hat{c}_{it} \leq c]}{\sum_{t=1}^{T}\sum_{i=1}^{N} y_{it}\tau_{it}}.$$

In order to account for boundary effects, we adopt the same trimming approach as in GPV, and only use the trimmed sample of the estimated costs, removing those that are close to boundaries. The parameter $\tau_{it} \in \{0, 1\}$ in the above formula reflects this trimming:

$$\tau_{it} = \begin{cases} 1, & B_{min} + 2h \leq b_{it} \leq B_{Max} - 2h \\ 0, & \text{otherwise} \end{cases}$$

We now turn to the participation stage. The expected profits and prices in auctions with n participants can be estimated, for a typical project, by replacing the distribution $F(\cdot)$ with the estimate $\hat{F}(\cdot)$. This gives us the estimates

$$\hat{u}(n) = \int c d\hat{F}_{(2:n)}(c) - \int c d\hat{F}_{(1:n)}(c), \qquad \hat{p}_*(n) = \int c d\hat{F}_{(2:n)}(c).$$

The integrals with respect to the empirical distributions $\hat{F}_1(\cdot)$ and $\hat{F}_2(\cdot)$ that appear above are actually weighted averages of the ordered sample of cost estimates,

$$\hat{c}_{(1:NT)} \leq ... \leq \hat{c}_{(NT:NT)},$$

given that the overall sample size is NT. The distributions of the order statistics $\hat{F}_{(1:n)}(c)$ and $\hat{F}_{(2:n)}(c)$ are discrete distribution concentrated on the (ordered) sample of estimated costs $\{\hat{c}_{(k)}\}_{k=1}^{NT}$, with

$$\hat{F}_{(1:n)}(\hat{c}_{(k)}) = \hat{F}(\hat{c}_{(k)})^n = \left(\frac{k}{NT}\right)^n,$$

and

$$\hat{F}_{(2:n)}(c) = n\hat{F}_{1:n-1}(c) - (n-1)\hat{F}_{1:n}(c).$$

This yields the estimates[27]

$$\begin{aligned}
\hat{u}_*(n) &= \frac{1}{n}\sum_{k=1}^{NT} \hat{c}_{(k)} \Delta\hat{F}_{(2:n)}(\hat{c}_{(k)}) - \frac{1}{n}\sum_{k=1}^{NT} \hat{c}_{(k)} \Delta\hat{F}_{(1:n)}(\hat{c}_{(k)}), \\
\hat{p}_*(n) &= \sum_{k=1}^{NT} \hat{c}_{(k)} \Delta\hat{F}_{(2:n)}(\hat{c}_{(k)}).
\end{aligned}$$

These estimates are then plugged in to derive the estimates of the ex-ante profit function and the expected price,

$$\hat{\Pi}(\rho, N) = \sum_{n=0}^{N-2} \pi(n, \rho, N)\hat{u}_*(n), \qquad \hat{P}(\rho, N) = \sum_{n=1}^{N-1} w(\rho, n, N)\hat{p}_*(n).$$

We next use these estimates to obtain the counterfactual bounds on the participation probability $\hat{\rho}(N)$ and $\hat{\bar{\rho}}(N')$, and the corresponding bounds on the counterfactual price. For

[27] In the estimates below, we adopt the notation $\Delta\hat{F}(\hat{c}_{(k)}) = \hat{F}_{(2:n)}(\hat{c}_{(k)}) - \hat{F}_{(2:n)}(\hat{c}_{(k-1)})$, with $\hat{c}_{(0)} = 0$.

$N = 9$, we estimate the participation probability $\rho(N)$ as the empirical frequency,

$$\hat{\rho}(N) = \frac{1}{NT} \sum_{t=1}^{T} \sum_{i=1}^{N} y_{it},$$

while the counterfactual participation probability $\overline{\rho}(N')$ is estimated as the solution to the estimated analogue of (9),

$$\hat{\Pi}(\hat{\overline{\rho}}(N'), N') = \hat{\Pi}(\hat{\rho}(N), N).$$

We then obtain the estimated bound for the counterfactual price difference

$$P(N') - P(N) \in \Big[\hat{P}(\hat{\overline{\rho}}(N'), N') - \hat{P}(N),\ \hat{P}(\hat{\rho}(N), N') - \hat{P}(N)\Big],$$

exactly as described previously.

6.4 Results

We use the estimated production costs to perform the counterfactual as explained above. Table V shows the difference-in-difference estimate for prices per metric tonne when $N = 6$. The overall price reduction due to both the breakdown of the cartel and the entry of the new firms is estimated as $\$13.67$ per metric tonne of asphalt. The bound on the entry deterrence effect, also per metric tonne, is estimated to be

$$P(6) - P(9) \in \Big[-0.068,\ 0.92\Big].$$

The lower bound, which is negative, corresponds to the counterfactual participation probability estimated according to the Levin and Smith model. It is negative because the counterfactual participation probability with $N = 6$ bidders, estimated to be $\hat{\overline{\rho}}(6) = 0.66$, is higher than the actual participation probability with $N = 9$, $\hat{\rho}(9) = 0.41$. This results in a participation effect strong enough to offset the competition effect. The upper bound on the entry deterrence effect, 0.92, corresponds to exogenous participation, i.e. participation with the same probability as for $N = 9$, $\rho(6) = \hat{\rho}(9) = 0.41$. *Thus, we conclude that the entry deterrence effect is rather small as it accounts for no more than about 7% of the overall effect.*

7 Discussion

Our findings revealed that entry accounts for only a small fraction of the price change caused by the investigation, implying that coordinating a profitable and stable agreement was the main function of this particular cartel. The small role of entry deterrence may be at least in part due to the fact that there are already six firms in the industry and so, absent collusion, a fairly competitive outcome can be achieved. However, in other contexts even larger number of firms did not guarantee the competitive outcome. For instance, Elsinger et al. (2015) find that when Austria joined the European Union and Europe-wide competitors were allowed to bid in their treasury auction the number of participants moved from 15 to 25 and bond yields fell.

While this result is specific to our setting, our approach to separately identifying the two cartel roles could be applied in any setting where it is known that a cartel has ceased to function. Consider for instance the existing literature examining markets where the presence of cartels has been proven in a court of law (Asker (2010), Pesendorfer (2000), Porter and Zona (1993), Porter and Zona (1999), Froeb et al. (1993)). In each of these cases, and in other instances of uncovered bidding rings, our approach could easily be applied to disentangle the effects of entry deterrence and coordination. Our approach can be easily implemented because quantifying and simulating the post-cartel outcomes requires only the estimation of standard first-price auction models. By using our nonparametric bounds approach we have even avoided estimation of the entry cost.

In fact, while our approach is developed specifically in the case of auctions, it can be applied to non-auction settings as long as the competitive post-collusion period can be explicitly modelled. For instance, the approach could be adapted to the retail gasoline market cartel studied in Clark and Houde (2014). Rather than using auction theory, the post-collusion period could be analysed using the spatial differentiation model of Houde (2012) to capture the actual and counterfactual outcomes.

We focus on the post-cartel period rather than the collusive period, which would instead rely on modelling collusion in auctions. Such models are often complex to specify and are informative only provided that the researcher has information on the functioning of the cartel (see Asker (2010)), which in many cases is not available on a large scale. Moreover, studying the collusive period would not allow us to precisely disentangle the coordination and entry-deterrence effects. Rather the question would be: If the cartel had not actively deterred entry, but had merely coordinated its bids, how much lower would the prices have been in the collusive phase? This question is obviously important, but the effect is hard to estimate. Any estimate would rely on counterfactual simulation of a structural model that would involve bidder asymmetries, with the cartel being the strong bidder, and the fringe firms the weak bidders. There are several difficulties. First, one would need a good estimate of the entry cost of the non-cartel bidders, something that is avoided using our nonparametric bounds approach in the competitive phase. Second, even with a known entry cost, the entry game would have multiple equilibria and the counterfactual outcome would depend on the equilibrium selected. Third, one would need to determine who were the potential entrants in the collusive phase. There are also numerical difficulties associated with solving an auction model with asymmetric bidders and endogenous entry. For all these reasons, this topic is left for future research.

Disentangling the coordination and entry-deterrence activities is important for understanding the functioning of cartels, for evaluating the impact of collusion, and for designing effective anti-collusion policies. Although in the context of Montreal's cartel the allegations suggest that one of its roles was to explicitly deter entry, in other cases, cartels may not actively deter entry, but entry could occur naturally after the collapse of the collusive agreement. In the first case, it might make sense when calculating damages for the cartel to be held responsible for the full price increase caused by the two activities. In contrast, in the second case it might be more reasonable for the cartel to only be held accountable for the part of the price increase caused by coordinated behaviour. It is also important from a policy perspective to determine the best way to fight collusion. In particular, we might be interested in thinking about how to allocate resources for fighting collusion. By quantifying the relative importance of entry deterrence and bidders' coordination, our approach can shed light on where additional resources should be devoted.

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Appendix A

Table A.1: Test of the Common trend assumption

Dependent Variable	Raw bids					
Sample	All bids	All bids	All bids	Winning bid	Winning bid	Winning bid
	(1)	(2)	(3)	(4)	(5)	(6)
	Panel A: Linear Trend					
MontrealXYear	3.602***	5.993***	7.863***	4.957*	6.692**	8.285***
	(1.214)	(2.201)	(2.404)	(2.607)	(2.798)	(2.666)
	Panel B: Non-linear Trend					
MontrealXYear2008	9.919***	11.393***	12.051***	13.355***	14.971***	13.758***
	(2.310)	(3.564)	(3.550)	(4.661)	(4.594)	(3.953)
MontrealXYear2009	8.230***	11.950***	12.589***	10.341**	13.818**	12.468**
	(2.248)	(4.247)	(4.198)	(4.675)	(5.335)	(4.693)
Borough effects	No	Yes	Yes	No	Yes	Yes
Year effects	No	Yes	Yes	No	Yes	Yes
Type effects	No	Yes	Yes	No	Yes	Yes
p-value	0.0774	0.804	0.809	0.001	0.669	0.629
Observations	641	641	641	237	237	237
R-squared	0.716	0.948	0.953	0.754	0.971	0.978
Average outcome	73.89	73.89	73.89	74.03	74.03	74.03

Notes. Coefficient (standard error in parenthesis) of the interaction term between $Montreal$ and a linear trend ($Year$) on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6) for all the observations before the $Marteau$ investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. In Panel B, the trend is specified with two dummy variables for the years 2008 and 2009. *p-value* is the p-value for the F-test $MontrealXYear2008 = MontrealXYear2009$. The columns include the same variables included in Table VI. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

Table A.2: Heterogeneous trends

Dependent Variable	Raw bids					
Sample	All bids (1)	All bids (2)	All bids (3)	Winning bid (4)	Winning bid (5)	Winning bid (6)
	Panel A: Linear heterogenous trend					
MontrealXMarteau	-7.376 (4.834)	-6.188 (5.162)	-6.704 (5.286)	-13.386** (5.150)	-13.148** (5.668)	-11.867** (5.562)
	Panel B: Non-linear heterogenous trend					
MontrealXMarteau	-17.825*** (1.176)	-15.636*** (1.778)	-15.944*** (1.766)	-19.031*** (1.198)	-17.173*** (1.968)	-16.228*** (1.940)
Borough effects	No	Yes	Yes	No	Yes	Yes
Year effects	No	Yes	Yes	No	Yes	Yes
Type effects	No	Yes	Yes	No	Yes	Yes
Observations	2,263	2,263	2,263	662	662	662
R-squared	0.426	0.726	0.731	0.589	0.893	0.912
Average outcome	70.92	70.92	70.92	69.37	69.37	69.37

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. The model includes heterogenous trends: In Panel A, an interaction term between $Montreal$ and a linear trend ($Year$); In Panel B interactions terms between $Montreal$ and a year indicators (2007-20013). The columns include the same variables included in Table VI. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

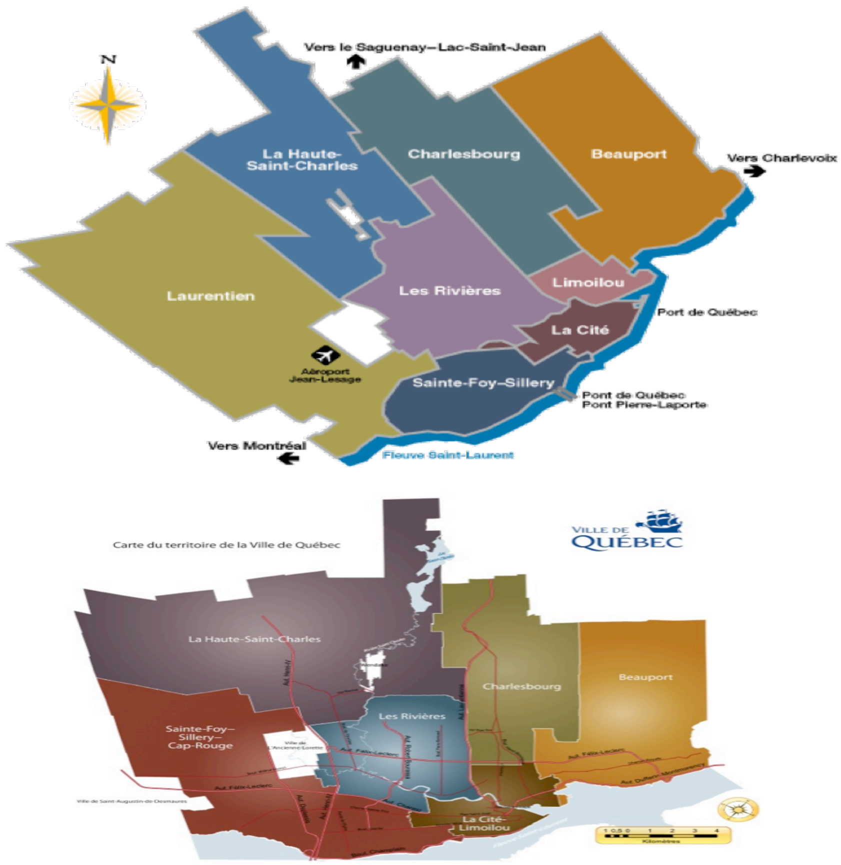
Appendix B–for online publication

Table B.1: Variables, Descriptions and Sources

	Samples	
All bids	Is the raw bid of every participating firm in every auction.	
Winning bid	Is the raw bid of the firm winning the auction.	
	Dependent variables	
Variable	**Description**	**Source/Calculation**
Raw bid	Is the bid per metric ton of asphalt submitted by a firm. This bid does not include transport charges.	Data from calls for tenders obtained by access to information requests. In Montreal, one raw bid per type. In Quebec, thre is one raw bid per type/borough. Auctions are won at borough level so the reported raw bid is the weighted average per borough. The weights are the quantity of each
Transportation Charges	It is the price per metric ton that the city will be charged to pick up the asphalt or to have it delivered.	Data from calls for tenders gathered by access to information. In both cities, there is one transport charge per borough.
Final/total bid	Is the sum of the raw bid and of the transport charge.	Same source as above.
Number of bidders	Is the number of firms participating in an auction.	
Number of employees	Is the number of employee within the company. It is measured at the company level	The information comes frm the firms websites when available or from the Registre des entreprises du Quebec (Business register); http://www.registreentreprises.gouv.qc.ca/en/default.aspx.
Share of the dominant firm	Is the share of the yearly dominant firm and is measured at the year and city level.	The share of a firm is the value of won contract of the firm during a year weighted by the total value of awarded contracts. The firm with the largest share is the dominant one.
Distance from office	Is the average distance between the office and the production plants. It is measured at the company level.	The distances are calculated using Google maps.
	Explainatory variables	
Variable	**Description**	**Source/Calculation**
Montreal	Is a dummy variable equal 1 if the observations are those of Montreal and 0 otherwise.	
Marteau	Is a dummy variable equal 1 if the observations are after 2009 and 0 otherwise.	
Montreal*Marteau	Is a dummy equal 1 if the observations are those of Montreal and happened after 2009.	The coefficient of this variable measures the impact of the Marteau Investigation announcement on the prices in the difference-in-difference analysis.
Crude oil lag	Is the yearly average price of the crude oil lagged by one period. It is measured at the year level.	Data from the website of Natural Resources Canada: http://www.nrcan.gc.ca/energy/crude-petroleum/4541. We take the average of all crude oils listed.
Capacity	Is the number of tons a year that a firm can produce. It is measured at the auction level.	It is the maximum among all years, of all the quantity a firm will bid on.
Distance	Is the round trip distance between the production site of a firm and the contract's delivery site. It is measured at the auction level.	For Montreal, the distance comes from the calls for tenders obtained by access to information requests. For Quebec, it was calculated using Google maps.
CON	Is the experience of a firm in a borough and it is measured at the year, company and borough level.	It is measured by the proportion of auctions won by a firm in a borough during the previous year. In Quebec, the is a change in the boroughs in 2010. The new borough of La Cite-Limoilou is the reunion of of two previous boroughs; La Cite and Limoilou. A firm who won 100% of the contracts in La Cite in 2009 but 0% in Limoilou has an experience of 50% in the new borough. The new borough Sainte-Foy-Sillery-Cap-Rouge is the union of the prior borough of Sainte-Foy-Sillery and half of the prior borough of Laurentien. A firm that won all auctions in Laurentien in 2009 and none elsewhere, has an experience of 25% in the new borough since the new borough is formed with 25% of the borough of Laurentien.
HHI	Is the yearly sum of all firm's share squared and is measured at the year and city level.	The share of a firm is the value of won contract of the firm during a year weighted by the total value of awarded contracts.

Figure B.1: Map of Montreal boroughs

Figure B.2: Map of Quebec City boroughs before and after amalgamation



B.1 Robustness

In Section B.2, we consider different explanatory variables that have sometimes shown up in the literature, but which we do not include in our main specification. Our results are robust to the inclusion of the square of the capacity variable (Table B.2), which is sometimes included to account for non-linearities in the effect of firms' capacity on bidding. Our results are also robust to the inclusion of a variable that indicates the number of bidders in the auction (Table B.3). In Section B.3, we include different measures of crude oil price (Table B.4) and consider the use of the current (rather than lagged in Table B.5) price (and both current and lagged values, in Table B.6). Our results are also robust to these variations from the baseline model.

In Section B.4, we repeat our analysis considering different time windows around the date of the start of the investigation. We consider the following windows: 2009-2010 (Table B.7), 2008-2011 (Table B.8) and 2007-2012 (Table B.9). In every case the interaction coefficient is statistically significant, and, except for the shortest window, the estimated investigation effect is very similar. For the shortest window the effect is smaller.

Next we consider a number of specifications to address particularities of the markets and/or bidding processes. There is a sizeable change in the number of auctions in 2010 and 2011 in Montreal (the number of contracts is more than double the number in other years) that we investigate in Section B.5. In 2010-2011, boroughs requested smaller quantities of asphalt but for more types. In Table B.10, we control for the number of auctions per year in each city. Moreover, since in Montreal the firms are constrained to submit one price per type per year, there could be concern that firms were not bidding to maximize profits in each auction, but rather for each type. To address this concern, we suppose that auctions are for types and investigate the impact of the investigation on type prices. In Table B.11 we still observe a significant decrease in price of around 16%, depending on the exact specification. In Table B.12, we also test the effect of the investigation on the quantity demanded of these types and find no significant change in demand. This also allows us to rule out the possibility that our price effect is driven by changes in demand of asphalt in Montreal vs Quebec City from before to after the investigation.

Another particularity of Montreal's market is that two of the firms are owned by the same consortium, but bid as separate firms. These two firms actually share the same production plants. In Section B.6 we treat these two firms as one firm. Table B.13 shows that the estimated results are similar to our main results and are still statistically significant.

In Section B.7, we consider that in Quebec all the produced asphalt is collected by the city. In Montreal on the other hand, some types are collected while others are delivered by the firms. The results are robust to using a sample consisting only of the delivered or the picked-up types and to controlling for the nature of the transport (Table B.14). We also find similar results if we keep only the districts that request asphalt every year in our sample (Table B.15).

In Section B.8, we consider the fact that the winner of a particular auction in Montreal is determined at the type/borough level, while in Quebec City, there is one auction per per borough and a firm bids for all the types needed in that borough. The firm with the lowest total submission wins the auction. In Table B.16 we also verify what happens when we treat every type in an auction in Quebec as an individual auction, like in Montreal. Once again the results are consistent.

Overall, we conclude that the descriptive (and graphical) effect of the investigation on prices identified from Table V (and Figure 1) is robust to the specification of the empirical model, sample selection around the date of the investigation, and to different features of our market and data.

B.2 Model specification

Table B.2: D-i-D controlling for square of the capacity

Dependent Variable	Raw bids					
Sample	All bids (1)	All bids (2)	All bids (3)	Winning bids (4)	Winning bids (5)	Winning bids (6)
MontrealXMarteau	-8.762***	-8.762***	-8.738**	-9.759***	-9.759***	-9.725***
	(3.339)	(3.339)	(3.361)	(3.609)	(3.609)	(3.440)
Montreal	9.126***	9.126***	8.033***	8.432***	8.432***	8.180***
	(1.920)	(1.920)	(2.983)	(1.460)	(1.460)	(1.437)
Marteau	15.262***	-5.555*	-5.957	16.746***	-4.449	-6.272
	(3.405)	(3.204)	(3.641)	(3.774)	(3.532)	(3.884)
Capacity	-0.183	-0.183	-0.179	-0.744***	-0.744***	-0.673***
	(0.140)	(0.140)	(0.138)	(0.166)	(0.166)	(0.181)
Capacity2	0.003	0.003	0.003	0.014***	0.014***	0.012***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)
Crude oil lag		0.128***	0.132***		0.130***	0.130***
		(0.003)	(0.004)		(0.003)	(0.004)
Quantity			-0.138			-0.200
			(0.134)			(0.151)
Distance			-0.014			-0.025
			(0.026)			(0.032)
CON			-2.250***			1.583**
			(0.665)			(0.637)
HHI			-2.599			-7.405
			(4.434)			(4.816)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,263	2,263	2,263	662	662	662
R-squared	0.727	0.727	0.731	0.914	0.914	0.918
Average outcome	70.92	70.92	70.92	69.37	69.37	69.37

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. $Capacity$ ($Capacity2$) is the firm's potential capacity (squared term), defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year, borough and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

Table B.3: D-i-D controlling for number of bidders

Dependent Variable	Raw bids					
Sample	All bids	All bids	All bids	Winning bids	Winning bids	Winning bids
	(1)	(2)	(3)	(4)	(5)	(6)
MontrealXMarteau	-9.200***	-9.200***	-9.123***	-9.736***	-9.736***	-9.721***
	(3.400)	(3.400)	(3.424)	(3.716)	(3.716)	(3.492)
Montreal	9.299***	9.299***	8.287***	9.387***	9.088***	9.811***
	(1.969)	(1.969)	(3.033)	(2.439)	(1.746)	(1.628)
Marteau	15.526***	-5.492*	-5.853	16.717***	-5.088	-5.760
	(3.451)	(3.230)	(3.689)	(3.853)	(3.597)	(3.959)
N.bidders	0.327	0.327	0.267	-0.616**	-0.616**	-0.319
	(0.251)	(0.251)	(0.247)	(0.252)	(0.252)	(0.230)
Crude oil lag		0.129***	0.133***		0.134***	0.132***
		(0.003)	(0.004)		(0.003)	(0.004)
Capacity			0.011			0.125***
			(0.023)			(0.036)
Quantity			-0.142			-0.210
			(0.135)			(0.154)
Distance			-0.019			-0.090**
			(0.025)			(0.036)
CON			-2.195***			1.277*
			(0.650)			(0.653)
HHI			-2.465			-7.896
			(4.492)			(4.909)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,263	2,263	2,263	662	662	662
R-squared	0.727	0.727	0.731	0.895	0.895	0.913
Average outcome	70.92	70.92	70.92	69.37	69.37	69.37

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. $N.bidders$ is the number of bidders that submitted an offer. $Capacity$ is the firm's potential capacity (squared term), defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year, borough and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

B.3 Different measure of crude oil and different lags of the crude oil price

In our main regression we include a measure of the price of lagged crude oil. This measure is the yearly average price of all crude oils reported by Natural Resources Canada[28]. However, bitumen is the input used in the production of asphalt, which is a derivative of certain crude oils. We have price information for the bitumen from *Bitume Québec*, but we believe these prices to be endogenous. The measure we use is imperfect since only certain crude oils can be use in the production of bitumen. These crude oils are not traded on the market like regular ones, but are directly sold by the producers to refineries that will then transform them into bitumen. Three specific oils are used in Quebéc according to the above association [29]: 1) the Maya from Mexico, 2) the Lloydminster blend from Saskatchewan and 3) the Cold Lake blend from Alberta. We were only able to find data for the Maya blend and the Lloydminster blend [30]. In our main regression we use the prices of the crude oils reported by Natural Resources Canada since we believe this source to be accurate and because the prices reported are highly correlated with the Maya and Lloyd blends. In table B.4, we run our regression on the same sample but we use as the average of the Maya and Lloyd blend as our crude measure (ML).

[28] http://www.nrcan.gc.ca/energy/fuel-prices/crude/4913

[29] www.bitumequebec.ca/assets/application/.../47481a992acb429_file.pdf

[30] We managed to get the complete data for the Maya blend from the U.S. Energy Information Administration http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=imx2810004&f=m. We gathered the Lloydminster blend prices from CLG Petroleum Consultants https://www.gljpc.com/commodity-price-library.

Table B.4: D-i-D with the average of the Maya and Lloyd blend as our crude oil measure

Dependent Variable	Raw bids					
Sample	All bids (1)	All bids (2)	All bids (3)	Winning bids (4)	Winning bids (5)	Winning bids (6)
MontrealXMarteau	-8.679***	-8.679***	-8.693**	-10.770***	-10.770***	-10.231***
	(3.321)	(3.321)	(3.347)	(3.690)	(3.690)	(3.484)
Montreal	9.411***	9.411***	8.314***	8.920***	4.929	9.673***
	(1.913)	(1.913)	(2.991)	(1.822)	(3.969)	(3.057)
Marteau	15.197***			17.389***		12.846***
	(3.391)			(3.861)		(3.821)
Crude oil lag (Maya and Lloyd blend)		0.313***	0.322***		0.310***	0.066*
		(0.070)	(0.075)		(0.088)	(0.034)
Capacity			0.008			0.130***
			(0.023)			(0.036)
Quantity			-0.140			-0.217
			(0.135)			(0.155)
Distance			-0.017			-0.088**
			(0.025)			(0.036)
CON			-2.228***			1.389**
			(0.648)			(0.641)
HHI			-2.606			-7.747
			(4.423)			(4.921)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,263	2,263	2,263	662	662	662
R-squared	0.726	0.726	0.731	0.893	0.893	0.913
Average outcome	70.92	70.92	70.92	69.37	69.37	69.37

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year, borough and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

Table B.5: D-i-D controlling for the contemporaneous price of crude oil

Dependent Variable	Raw bids					
Sample	All bids (1)	All bids (2)	All bids (3)	Winning bids (4)	Winning bids (5)	Winning bids (6)
MontrealXMarteau	-8.679***	-8.679***	-8.693**	-10.770***	-10.770***	-10.231***
	(3.321)	(3.321)	(3.347)	(3.690)	(3.690)	(3.484)
Montreal	9.411***	9.411***	8.314***	8.920***	8.920***	9.673***
	(1.913)	(1.913)	(2.991)	(1.822)	(1.822)	(3.057)
Marteau	15.197***	11.301***	10.619***	17.389***	12.470***	10.948***
	(3.391)	(3.087)	(3.694)	(3.861)	(3.538)	(4.001)
Crude oil		0.022***	0.028***		0.028***	0.029***
		(0.003)	(0.005)		(0.004)	(0.005)
Capacity			0.008			0.130***
			(0.023)			(0.036)
Quantity			-0.140			-0.217
			(0.135)			(0.155)
Distance			-0.017			-0.088**
			(0.025)			(0.036)
CON			-2.228***			1.389**
			(0.648)			(0.641)
HHI			-2.606			-7.747
			(4.423)			(4.921)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,263	2,263	2,263	662	662	662
R-squared	0.726	0.726	0.731	0.893	0.893	0.913
Average outcome	70.92	70.92	70.92	69.37	69.37	69.37

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. *Crude oil lag* is the price of the crude oil lagged. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year, borough and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

Table B.6: D-i-D controlling for the contemporaneous and lagged price of crude oil

Dependent Variable	Raw bids					
Sample	All bids	All bids	All bids	Winning bids	Winning bids	Winning bids
	(1)	(2)	(3)	(4)	(5)	(6)
MontrealXMarteau	-8.679***	-8.679***	-8.693**	-10.770***	-10.770***	-10.231***
	(3.321)	(3.321)	(3.347)	(3.690)	(3.690)	(3.484)
Montreal	9.411***	9.411***	8.314***	8.920***	4.929	9.750***
	(1.913)	(1.913)	(2.991)	(1.822)	(3.969)	(1.591)
Marteau	15.197***			17.389***		
	(3.391)			(3.861)		
Crude oil		-0.029*	-0.031*		-0.024	-0.028
		(0.016)	(0.019)		(0.019)	(0.020)
Crude oil lag		0.125***	0.130***		0.133***	0.129***
		(0.004)	(0.004)		(0.004)	(0.005)
Capacity			0.008			0.130***
			(0.023)			(0.036)
Quantit			-0.140			-0.217
			(0.135)			(0.155)
Distance			-0.017			-0.088**
			(0.025)			(0.036)
CON			-2.228***			1.389**
			(0.648)			(0.641)
HHI			-2.606			-7.747
			(4.423)			(4.921)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,263	2,263	2,263	662	662	662
R-squared	0.726	0.726	0.731	0.893	0.893	0.913
Average outcome	70.92	70.92	70.92	69.37	69.37	69.37

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. *Crude oil lag (Crude oil)* is the price of the crude oil lagged (current). $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year, borough and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

B.4 Different time windows around the investigation

Table B.7: D-i-D from 2009 to 2010

Dependent Variable	Raw bids					
Sample	All bids	All bids	All bids	Winning bids	Winning bids	Winning bids
	(1)	(2)	(3)	(4)	(5)	(6)
MontrealXMarteau	-2.086***	-2.086***	-2.422***	-5.722***	-5.722***	-4.761***
	(0.524)	(0.524)	(0.557)	(0.407)	(0.407)	(0.532)
Montreal	11.317***	11.317***		10.930***	10.930***	14.529***
	(1.102)	(1.102)		(0.638)	(0.638)	(1.141)
Marteau	-16.122***			-17.477***		
	(0.167)			(0.168)		
Crude oil lag		0.079***	0.078***		0.085***	0.081***
		(0.001)	(0.001)		(0.001)	(0.003)
Capacity			-0.098**			0.159**
			(0.040)			(0.061)
Quantity			-0.052			0.256
			(0.320)			(0.173)
Distance			-0.014			-0.116*
			(0.038)			(0.058)
CON			-0.853			1.684***
			(1.159)			(0.495)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	No	No	No	No	No	No
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	872	872	872	269	269	269
R-squared	0.756	0.756	0.763	0.961	0.961	0.980
Average outcome	75.55	75.55	75.55	73.76	73.76	73.76

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. *Crude oil lag* is the price of the crude oil lagged. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include borough and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

Table B.8: D-i-D from 2008 to 2011

Dependent Variable	Raw bids					
Sample	All bids (1)	All bids (2)	All bids (3)	Winning bids (4)	Winning bids (5)	Winning bids (6)
MontrealXMarteau	-10.028***	-10.028***	-10.143**	-14.036***	-14.036***	-12.604***
	(3.780)	(3.780)	(3.888)	(3.740)	(3.740)	(3.717)
Montreal	-2.888	-2.888	-1.669	-4.457	-4.457	-4.391
	(4.032)	(4.032)	(4.178)	(9.936)	(9.936)	(10.001)
Marteau	9.236**	3.521	3.318	11.429***	5.627	4.905
	(3.778)	(3.783)	(4.051)	(3.761)	(3.757)	(3.759)
Crude oil lag		0.107***	0.106***		0.108***	0.105***
		(0.002)	(0.003)		(0.002)	(0.002)
Capacity			-0.003			0.140***
			(0.031)			(0.035)
Quantity			0.136			0.195
			(0.325)			(0.241)
Distance			-0.039			-0.074**
			(0.030)			(0.036)
CON			-2.858***			0.818
			(0.882)			(0.556)
HHI			-0.680			-3.443
			(2.977)			(2.738)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,726	1,726	1,726	492	492	492
R-squared	0.756	0.756	0.763	0.941	0.941	0.954
Average outcome	72.16	72.16	72.16	70.80	70.80	70.80

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. *Crude oil lag* is the price of the crude oil lagged. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

Table B.9: D-i-D from 2007 to 2012

Dependent Variable	Raw bids					
Sample	All bids	All bids	All bids	Winning bids	Winning bids	Winning bids
	(1)	(2)	(3)	(4)	(5)	(6)
MontrealXMarteau	-8.702**	-8.702**	-8.796**	-11.601***	-11.601***	-11.148***
	(3.697)	(3.697)	(3.636)	(3.969)	(3.969)	(3.568)
Montreal	6.684	6.684	5.698	6.432	6.432	4.703
	(4.061)	(4.061)	(4.262)	(6.947)	(6.947)	(7.644)
Marteau	13.116***	14.830***	15.599***	15.153***	14.438***	13.625***
	(3.767)	(3.847)	(3.837)	(4.056)	(4.165)	(3.924)
Crude oil lag		-0.010*	-0.011*		0.004	0.002
		(0.005)	(0.006)		(0.005)	(0.006)
Capacity			-0.005			0.150***
			(0.025)			(0.033)
Quantity			-0.096			-0.194
			(0.347)			(0.331)
Distance			-0.020			-0.053
			(0.027)			(0.037)
CON			-2.386***			1.976***
			(0.701)			(0.701)
HHI			-3.311			-6.985
			(4.517)			(4.825)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,140	2,140	2,140	621	621	621
R-squared	0.732	0.732	0.738	0.902	0.902	0.921
Average outcome	71.04	71.04	71.04	69.47	69.47	69.47

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. *Crude oil lag* is the price of the crude oil lagged. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year, borough and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

B.5 Demand for asphalt

Table B.10: DID controlling for the number of auctions

Dependent Variable	Raw bids					
Sample	All bids (1)	All bids (2)	All bids (3)	Winning bids (4)	Winning bids (5)	Winning bids (6)
MontrealXMarteau	-10.258***	-10.258***	-10.416***	-11.143***	-11.143***	-10.833***
	(3.138)	(3.138)	(3.124)	(3.555)	(3.555)	(3.378)
Montreal	8.032***	8.032***	5.071	8.931***	8.931***	8.420**
	(2.495)	(2.495)	(3.621)	(2.879)	(2.879)	(3.330)
Marteau	17.846***	-2.714	-3.879	18.058***	-3.933	-4.728
	(3.440)	(3.231)	(3.692)	(3.886)	(3.666)	(4.123)
Nbr auctions	0.043*	0.043*	0.049**	0.011	0.011	0.019
	(0.024)	(0.024)	(0.024)	(0.027)	(0.027)	(0.027)
Crude oil lag		0.126***	0.133***		0.135***	0.133***
		(0.003)	(0.004)		(0.003)	(0.004)
Capacity			0.008			0.129***
			(0.023)			(0.036)
Quantity			-0.113			-0.207
			(0.131)			(0.153)
Distance			-0.021			-0.091**
			(0.025)			(0.036)
CON			-2.231***			1.311**
			(0.648)			(0.643)
HHI			-6.900*			-9.556**
			(3.954)			(4.326)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,263	2,263	2,263	662	662	662
R-squared	0.728	0.728	0.733	0.893	0.893	0.913
Average outcome	70.92	70.92	70.92	69.37	69.37	69.37

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. $Nbr\ auctions$ is the annual number of auctions. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

Table B.11: D-i-D for the price of types

Dependent Variable	Price of types			
Sample	All types			
	(1)	(2)	(3)	(4)
MontrealXMarteau	-12.25***	-12.55***	-12.24***	-12.70***
	(3.994)	(3.970)	(3.995)	(3.908)
Montreal	17.86***	17.51***	17.67***	17.39***
	(1.570)	(1.630)	(1.567)	(1.560)
Marteau	16.23***	16.92***	17.92***	18.05***
	(3.261)	(3.312)	(3.176)	(3.151)
Median Quantity		-0.812		
		(0.593)		
Maximum Quantity			-0.541**	
			(0.207)	
Average Quantity				-1.376**
				(0.558)
Year effects	Yes	Yes	Yes	Yes
Observations	95	95	95	95
R-squared	0.678	0.681	0.692	0.688
Average outcome	68.38	68.38	68.38	68.38

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on the yearly average price of asphalt articles. $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal.$MedianQuantity$ is the yearly median quantity of asphalt auctioned for contracts of a given type. $MaximumQuantity$ is the yearly maximum quantity of asphalt auctioned for contracts of a given type. $AverageQuantity$ is the yearly mean quantity of asphalt auctioned for contracts of a given type. All regressions include year effects. SEs are clustered at the city and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

In table B.12 we see that the size of the contracts in terms of quantity (i.e., demand) seems to be different (the p-value of $MontrealXMarteau$ is 10.4%). In Montreal before the investigation the average quantity of asphalt auctioned is 184 tons and the average is 201 tons after the investigation. This difference between the means is not statistically different from 0 (p-value 68.95%). However, Quebec reduce its number of boroughs but not the surface of its road system and therefore, the average quantity auctioned of each asphalt type is bound to increase. In fact, the average demand of types goes from 711 tons to 1121 tons. The change in Quebec City explains the large negative interaction coefficient.

Table B.12: D-i-D for the quantity of asphalt types

Dependent variable	Quantity
Sample	All types
	(1)
MontrealXMarteau	-200.0
	(122.6)
Montreal	-723.4***
	(233.0)
Marteau	226.2*
	(136.2)
Borough effects	Yes
Year effects	Yes
Type effects	Yes
Observations	1,570
R-squared	0.322
Average outcome	304.9

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. The regression includes year and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

B.6 Firms' ownership

We have treated all firms as separate even though in Montreal firm 4 is owned by firm 2 and each will sometimes use the other's plant to produce asphalt. They do not compete in auctions prior to 2009, but do so afterwards. In the following table, we treat these firm as one and assume that firm 4 is a plant of firm 2. We define the lowest bid of these two firms as the serious bid.

Table B.13: D-i-D when treating firm 2 and 4 as one firm

Dependent Variable	Raw bids					
Sample	All bids (1)	All bids (2)	All bids (3)	Winning bids (4)	Winning bids (5)	Winning bids (6)
MontrealXMarteau	-8.667***	-8.667***	-9.623***	-10.770***	-10.770***	-10.234***
	(3.321)	(3.321)	(3.349)	(3.690)	(3.690)	(3.692)
Montreal	6.437	6.437	7.392*	8.920***	8.920***	8.818***
	(3.960)	(3.960)	(3.966)	(1.822)	(1.822)	(1.988)
Marteau	15.202***	-5.683*	-4.458	17.389***	-4.681	-5.471
	(3.392)	(3.188)	(3.511)	(3.861)	(3.623)	(4.083)
Crude oil lag		0.128***	0.129***		0.135***	0.131***
		(0.003)	(0.004)		(0.003)	(0.005)
Capacity			-0.119***			0.021
			(0.014)			(0.021)
Quantity			-0.132			-0.223
			(0.132)			(0.163)
Distance			-0.059***			-0.131***
			(0.021)			(0.029)
CON			-1.518**			1.493**
			(0.607)			(0.582)
HHI			0.336			-3.291
			(4.022)			(4.542)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,261	2,261	2,261	662	662	662
R-squared	0.726	0.726	0.744	0.893	0.893	0.906
Average outcome	70.93	70.93	70.93	69.37	69.37	69.37

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year, borough and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

B.7 Picked-up and delivered asphalt types

In Quebec City, all asphalt types are picked by the city's trucks. In Montreal however, some articles of asphalt are delivered by the firms to the boroughs' reception point.[31] In Table B.14 we run the difference-in-difference regression only on collected articles.

[31] Some types are both collected and delivered. When it is the case, 2 auctions will be held. One under the name of article 1 and the other one under the name of article 2.

Table B.14: D-i-D for picked up asphalt types

Dependent Variable	Raw bids					
Sample	All bids (1)	All bids (2)	All bids (3)	Winning bids (4)	Winning bids (5)	Winning bids (6)
MontrealXMarteau	-10.627***	-10.627***	-10.181***	-13.077***	-13.077***	-12.517***
	(3.395)	(3.395)	(3.127)	(3.645)	(3.645)	(3.164)
Montreal	12.575***	12.575***	11.733***	14.728***	14.728***	
	(3.913)	(3.913)	(4.018)	(1.209)	(1.209)	
Marteau	14.451***	-4.686	-4.874	16.541***	-3.499	-4.484
	(3.743)	(3.159)	(3.099)	(4.289)	(3.546)	(3.500)
Crude oil lag		0.117***	0.121***		0.123***	0.124***
		(0.008)	(0.008)		(0.008)	(0.008)
Capacity			0.046			0.090*
			(0.030)			(0.051)
Quantity			-0.046			-0.143
			(0.701)			(0.773)
Distance			0.063*			-0.088*
			(0.036)			(0.051)
CON			-1.872***			1.380
			(0.635)			(0.999)
HHI			-0.290			-5.890
			(4.571)			(4.814)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,148	1,148	1,148	319	319	319
R-squared	0.603	0.603	0.612	0.859	0.859	0.870
Average outcome	68.20	68.20	68.20	66.35	66.35	66.35

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

In table B.15, we run the difference-in-difference regression only for Montréal's delivered articles, while we keep all of Québec's asphalt auctions as a control.

Table B.15: D-i-D for delivered types

Dependent Variable	Raw bids					
Sample	All bids	All bids	All bids	Winning bids	Winning bids	Winning bids
	(1)	(2)	(3)	(4)	(5)	(6)
MontrealXMarteau	-6.359*	-6.359*	-6.413*	-8.445**	-8.445**	-7.850**
	(3.266)	(3.266)	(3.327)	(3.843)	(3.843)	(3.553)
Montreal	5.883	5.883	4.307	8.825***	8.825***	8.764***
	(4.023)	(4.023)	(4.322)	(1.759)	(1.759)	(1.433)
Marteau	14.375***	11.911***	-6.910*	15.009***	12.034***	-8.244**
	(3.361)	(3.481)	(3.509)	(4.049)	(4.088)	(3.884)
Crude oil lag		0.015**	0.132***		0.018*	0.129***
		(0.007)	(0.004)		(0.011)	(0.005)
Capacity			-0.031			0.145***
			(0.022)			(0.036)
Quantity			-0.206			-0.267
			(0.129)			(0.169)
Distance			-0.067**			-0.041
			(0.026)			(0.037)
CON			-1.711***			2.046**
			(0.654)			(0.913)
HHI			-5.992			-11.340**
			(4.117)			(4.782)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,275	1,275	1,275	389	389	389
R-squared	0.826	0.826	0.831	0.905	0.905	0.926
Average outcome	72.26	72.26	72.26	70.76	70.76	70.76

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. *Crude oil lag* is the price of the crude oil lagged. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

B.8 Contracting boroughs

Some of the boroughs of Montreal do not request asphalt for a certain period of time. In table B.16 we run our regression for boroughs requesting asphalt every year. There are 9 such boroughs out of 19 in Montreal. In 2009, the definition of the boroughs of Québec City changes, making it impossible for us to map an ”old” borough the new geographic definition. As an example, a part of the Laurentien borough is now in the Haute-Saint-Charles borough wile the rest is in the borough of Sainte-Foy-Sillery. For this reason, we keep all Queébec City's boroughs.

Table B.16: D-i-D for boroughs always contracting

Dependent Variable	Raw bids					
Sample	All bids	All bids	All bids	Winning bids	Winning bids	Winning bids
	(1)	(2)	(3)	(4)	(5)	(6)
MontrealXMarteau	-8.761***	-8.761***	-8.800***	-10.911***	-10.911***	-9.949***
	(3.300)	(3.300)	(3.356)	(3.659)	(3.659)	(3.385)
Montreal	6.509*	6.509*	5.856	9.048***	9.048***	9.721***
	(3.799)	(3.799)	(4.055)	(1.751)	(1.751)	(1.059)
Marteau	14.708***	-6.113*	-6.565*	16.736***	13.229***	-6.216
	(3.352)	(3.134)	(3.622)	(3.850)	(3.897)	(3.826)
Crude oil lag		0.128***	0.134***		0.021***	0.127***
		(0.003)	(0.004)		(0.007)	(0.005)
Capacity			0.030			0.141***
			(0.025)			(0.034)
Quantity			-0.137			-0.194
			(0.141)			(0.157)
Distance			-0.021			-0.044
			(0.031)			(0.038)
CON			-2.817***			2.625***
			(0.692)			(0.896)
HHI			-2.427			-8.202*
			(4.420)			(4.682)
Borough effects	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Type effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,725	1,725	1,725	477	477	477
R-squared	0.744	0.744	0.750	0.893	0.893	0.914
Average outcome	70.98	70.98	70.98	69.48	69.48	69.48

Notes. Coefficient (standard error in parenthesis) of the effect of the announce of the Marteau investigation on raw bids: all bids (columns 1 to 3), winning bids (columns 4 to 6). $Marteau$ is a dummy variable = 0 if the observations are previous to the investigation announcement (2007 to 2009 included). $Montreal$ is also a dummy variable = 1 if the observations are those of Montreal. $Capacity$ is the firm's potential capacity, defined as the maximum quantity ever bid on by the firm in our sample for Quebec, while in Montreal it is defined in all post-cartel years. $Quantity$ is the number of tonnes in the call. $Distance_{i,x}$ is the distance from a firm to the delivery point of the borough where the job is located. CON is percentage of all contracts won in a borough by a firm in the previous year. HHI is the Herfindal index. For Quebec City we use the one that would prevail without the change in legislation in 2009. All regressions include year and asphalt types effects. SEs are clustered at borough and year levels. Significance at the 10% (*), at the 5% (**), and at the 1% (***).

B.9 Transport charges and final bids

We concentrate our main analysis on raw bids, but contract allocation is based on final bids. In Montreal, firms are asked to submit a raw bid for each asphalt type. Firms must also take into account the transport cost they face and submit transport charges for each type in each borough. The sum of the raw bid on transport charges is the final bid. In Québec City however, we do not have enough information to build a perfect measure of transport charges and thus, of final bids. We know only raw bids per asphalt type per borough and the aggregated final bid of each firm per borough. Since the contracts are won at the borough level, not the asphalt type level as in Montreal, firms submit an aggregated transport charge for a borough. Since prices per type are usually different, it is impossible for us to map an accurate transport charge per asphalt type. More precisely, for each aggregated auctions we have:

$$\sum_{k=1}^{K} (\mathbf{P}_k + t_k) * \mathbf{Quantity}_k = \textbf{Aggregated final bid}$$

where k is the asphalt type, t is the unknown transport charge and P is the raw bid (what we know is is in bold text). We can rewrite the equation above as:

$$\sum_{k=1}^{K} (\mathbf{P}_k * \mathbf{Quantity}_k + t_k * \mathbf{Quantity}_k) = \textbf{Aggregated final bid}$$

$$\sum_{k=1}^{K} (t_k * \mathbf{Quantity}_k) = \textbf{Aggregated final bid} - \sum_{k=1}^{K} (\mathbf{P}_k * \mathbf{Quantity}_k)$$

$$\sum_{k=1}^{K} (t_k * \mathbf{Quantity}_k) = \textbf{Aggregated transport charge}$$

since t_k is unknown for all k, the best we can do is compute the average transport charge:

$$\overline{T} = \frac{\textbf{Aggregated transport charge}}{\sum_{k=1}^{K} (\mathbf{Quantity}_k)}$$

Similarly, we cannot compute final bids per type for Québec City.[32] This measure is imperfect, but we believe it is relevant to estimate DiD for transport charges and final bids.

[32]Note that since there is one winner per borough, we know that the firm that bids the lowest aggregated final bid, which we observe, is the actual winner.