

Reading Guide: *Proposed Merger of Staples and Office Depot in 1997 (Office Supply Superstores)*

This reading guide helps both non-presenters and presenters prepare for class. It offers broad and specific questions to spark critical thinking when engaging with required reading (RR). These focus your attention on the most important parts of the required readings, which are often lengthy and include a mix of not-so-important and *crucial* parts. These get you thinking about important concepts and looking for connections across readings and other course materials. Except when otherwise noted, references are to the first required reading: “Prices, Market Definition, and the Effects of a Merger: Staples-Office Depot (1997)” pp. 52 – 72 in *The Antitrust Revolution, Fourth Edition*. This guide ends with suggested goals and advice for the presenting team.

Broad Questions:

- A. How does this case illustrate the overall steps to assess whether a horizontal merger substantially lessens competition (as per the merger guidelines)?
- B. How did the FTC delineate the antitrust markets? How does the FTC address the issue that the merging parties sell many – literally thousands – of products with horizontal overlap? Do you agree that the proposed antitrust markets pass the hypothetical monopolist test?
- C. How is an econometric analysis used for an *ex ante* assessment of the competitive effects of this merger?
- D. While the econometric evidence is a particular feature of this case (especially as an early example of the increasing, yet still fairly rare, role of a full-blown econometric analysis as an *ex ante* tool), what are the other compelling pieces of evidence? (Note: Re-read [“Merger Analysis at the Federal Trade Commission: Two Recent Retail Cases”](#) Thompson (2007) pp. 1 – 7 from the first week of class.)
- E. Which portions of [“Economic Analysis of Retail Mergers at the Competition Bureau”](#) Competition Bureau (2014) are directly relevant to the 1997 investigation?

Specific Questions:

- 1. Two readings from Class 1 discuss the Staples-Office Depot matter: specifically, the second required reading and the first supplemental reading. What can we learn from these?
- 2. Who are the authors of the RR? With which side of the case do their sympathies lie?
- 3. On p. 55 the authors state: “Specifically, the FTC recognized that OSS prices might continue to fall after the merger, but argued that because prices would fall significantly further without the merger, the merger would still harm competition.” This is called a “but for” test: how would the industry and competition have evolved if everything was the same as in reality but for (except for) the proposed merger? It is also referred to as a counterfactual or thought experiment. Does this mean we should not think about whether prices will go up or down after the merger but rather how the prices after the merger *compare* to what prices would have been if the merger had not happened?
- 4. How many antitrust markets are alleged? What are they?
- 5. At the time of the merger, were Staples and Office-Depot the two largest OSSs?

6. What are all of the theories of harm considered in the RR? Which are most compelling? Least compelling? What are their relative strengths and weaknesses?
7. What are the three types of evidence that the FTC presented? How compelling is each?
8. Why is a merger-retrospective study impossible in this case? If it were, and prices were observed to decline post-merger, does that mean that the efficiencies outweighed the competitive harm?
9. What is the cellophane fallacy? How does it relate to this matter?
10. Pages 58 – 59 discuss some econometric evidence. What is the empirical model? Use formal notation. What kind of data is used in estimation?
11. Does Table 2-1 on page 60 reinforce the concerns of the FTC or undercut them?
12. Are Staples and Office Depot each other's closest competitor?
13. Could Footnote 11 be interpreted differently? That is, as an argument against the FTC? If so, how?
14. What does Table 2-2 show? What is left out? What kind of data used to generate it? Concerns?
15. Should the "Entry" section on pages 63 – 65 also discuss entry by OfficeMax into new markets?
16. What kinds of efficiencies are claimed?
17. In the "Efficiencies" section on pages 65 – 66 are the authors applying the rational in Figure 1-3 of page 25 of The Antitrust Revolution, Sixth Edition, which is required reading for Class 1, to evaluate the efficiencies?
18. Compare and contrast the presented reduced-form approach with a merger simulation approach.
19. Do the authors appear to favor a price standard or a total surplus standard?
20. Why is the concept of pass through important and how is the pass through rate estimated?
21. Which aspects of the assessment of whether this merger would substantially lessen competition are the most open to debate? In other words, where is there the most room for reasonable people of economic expertise to disagree?
22. Recall the second required reading: ["Economic Analysis of Retail Mergers at the Competition Bureau"](#) Competition Bureau (2014).
 - a. What are the key similarities between the 1997 Staples/Office Depot matter and the recently reviewed retail mergers at the Competition Bureau?
 - b. Does the 1997 analysis of Staples/Office Depot focus on the upstream or downstream?

- c. The Competition Bureau (2014) discusses “natural experiments” at some length, while that term only appears in the first required reading once in a footnote (Footnote 11, p. 61). Does the econometric analysis in Staples/Office Depot rely on the natural experiment concept?
 - d. The Competition Bureau (2014) discusses cross-sectional and time-series regressions. Which is relevant in the 1997 analysis of Staples/Office Depot?
 - e. Footnote 9 in the Competition Bureau (2014) discusses the breadth of the geographic market. Did the merging parties in the 1997 Staples/Office Depot matter make similar arguments? What were the merging parties’ key concerns about the FTC’s delineation of the relevant antitrust market?
 - f. According to the Competition Bureau (2014), which is more likely to involve econometric (regression) analysis: matters where the theory of harm is unilateral effects or coordinated effects?
23. (Note: This is directly targeted at the presenting team.) How can Ashenfelter et al (2006), a supplemental reading, inform our understanding of the econometric evidence alluded to in the main required reading? (Hints: Illuminate the required reading by presenting selected parts from the supplemental reading, which are far more detailed with respect to the econometric analyses. However, for Equations (5) and (7) just focus on the qualitative interpretation of the calculation offered by the authors.)
24. (Note: This is directly targeted at the presenting team.) How can Hausman and Leonard (1997), a supplemental reading, inform our understanding of the econometric evidence alluded to in the main required reading? (Note: Hausman and Leonard (1997) was clearly written in the heat of the moment. However, it provides a contrasting (and highly expert) take on the econometric evidence. Further, it gives a peek into how things actually happen in litigated antitrust matters. While, unlike other readings, it is not detailed – there are no models nor tables of results – it helps you understand and evaluate the arguments presented in the other readings.)

Suggested Goals and Advice for the Presenting Team:

Suggested goals for the presenting team: *Help the class through the stages of assessing whether a merger substantially lessens competition, paying particular attention to the more challenging parts of the RR including the econometric evidence and its strengths and limitations. In other words, give the class a deeper and more detailed understanding of the econometric evidence beyond the RR.* The suggested goals and the broad questions are meant to help you organize your team presentation in a coherent manner. In contrast, the specific questions are *not*. In other words, all members of your team should be fluent with the specific questions but your presentation should not be explicitly organized around them. Also, the presenting team is expected to read and study the supplemental readings to add depth to the presentation. In the past, teams that have attempted to divide the presentation by assigning team members subsets of specific questions or by assigning team members some subset of the required/supplemental reading have ended up with an incoherent presentation. A successful approach is to truly collaborate so that you all fully understand all parts of your team’s presentation and how everything fits together.