

Common Ownership and Competition in the Ready-To-Eat Cereal Industry*

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Abstract

If firms maximize the value of their shareholders' portfolios, and shareholders also own shares in competing firms, firms may have an incentive to soften competition in the product market. This is formalized as the common ownership model of firm conduct. We build on identification results for conduct testing (Berry and Haile, 2014) to devise a structural test for differentiated product markets and apply it to data from the ready-to-eat (RTE) cereal market. We find no evidence of higher prices through common ownership, though we show that the potential magnitude of such effects would be very large.

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