



Economic analysis: an essential tool for effective competition policy

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Gregor Langus

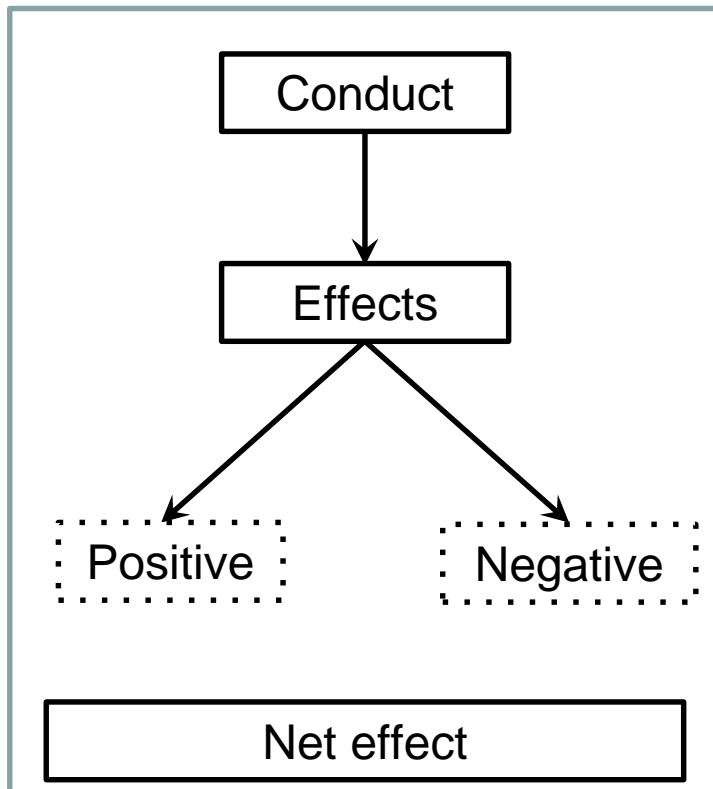
Member of the Chief Competition
Economist Team
European Commission

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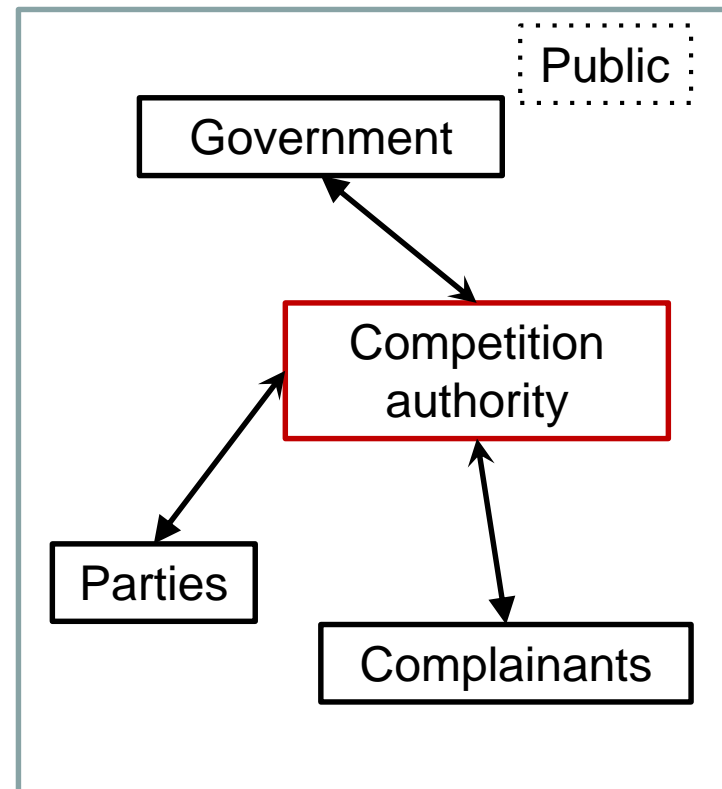
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The two problems of effective enforcement

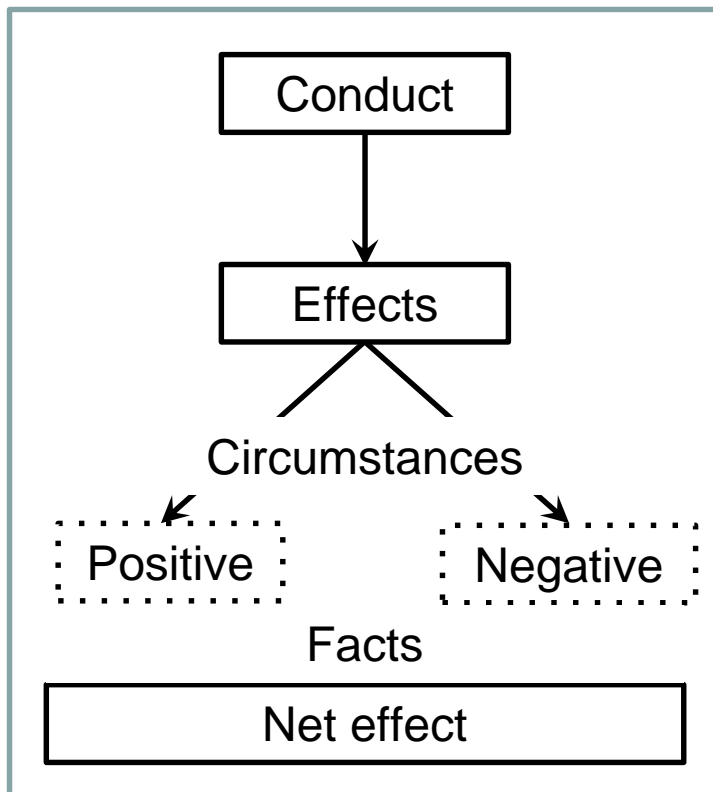
Identification



Independence



The two legs of competition economics – telling a credible and testable story



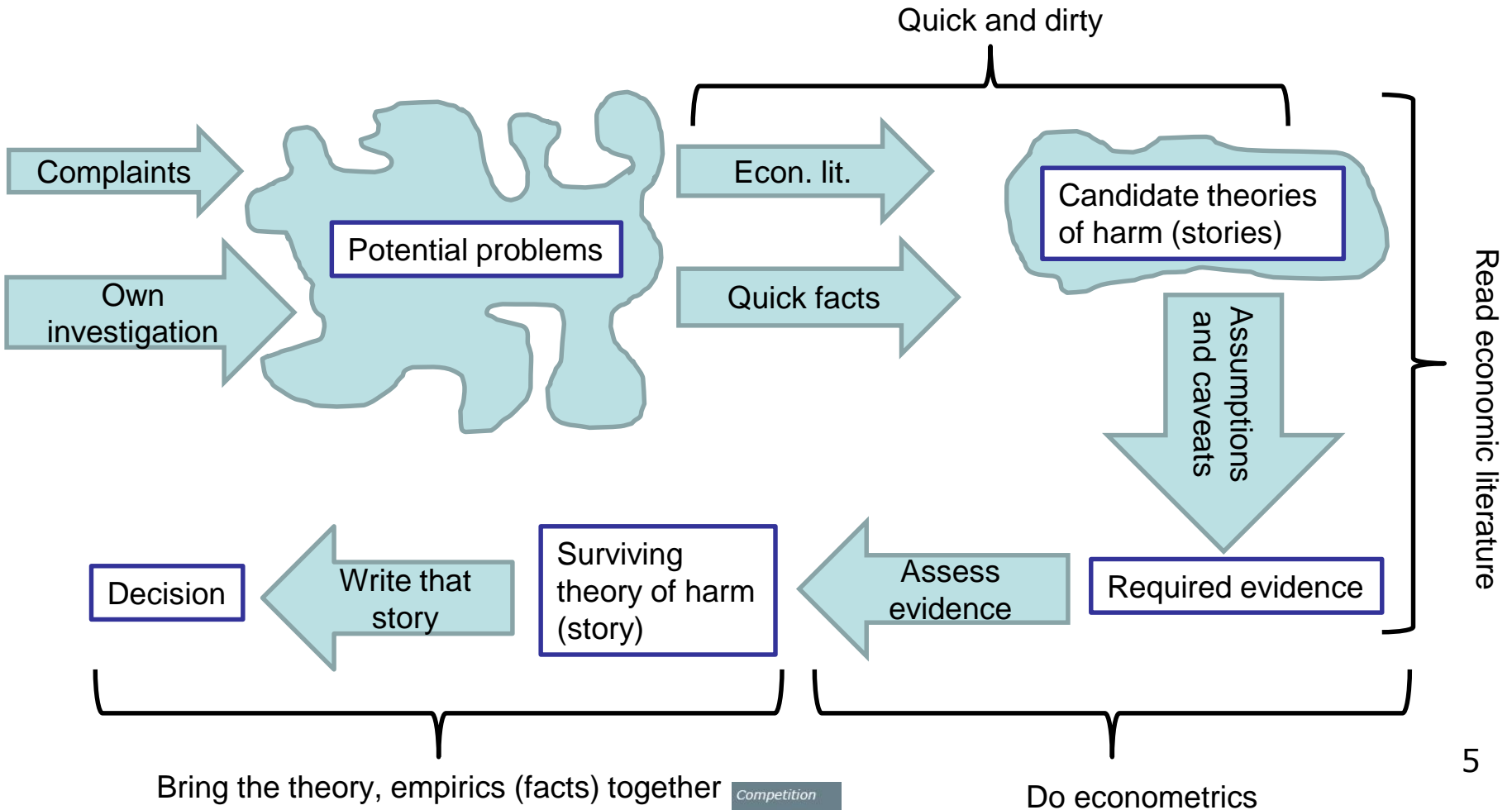
Theory:

- Identify the main issues of an otherwise too complex reality.
- Identify the pro- and anti-competitive effects (against a likely counterfactual).

Empirics / Econometrics:

- Provide empirical content to relations identified in theory.
- Allows for the balancing of effects.

Economic analysis at the EC



EC Example: econometrics – horizontal merger

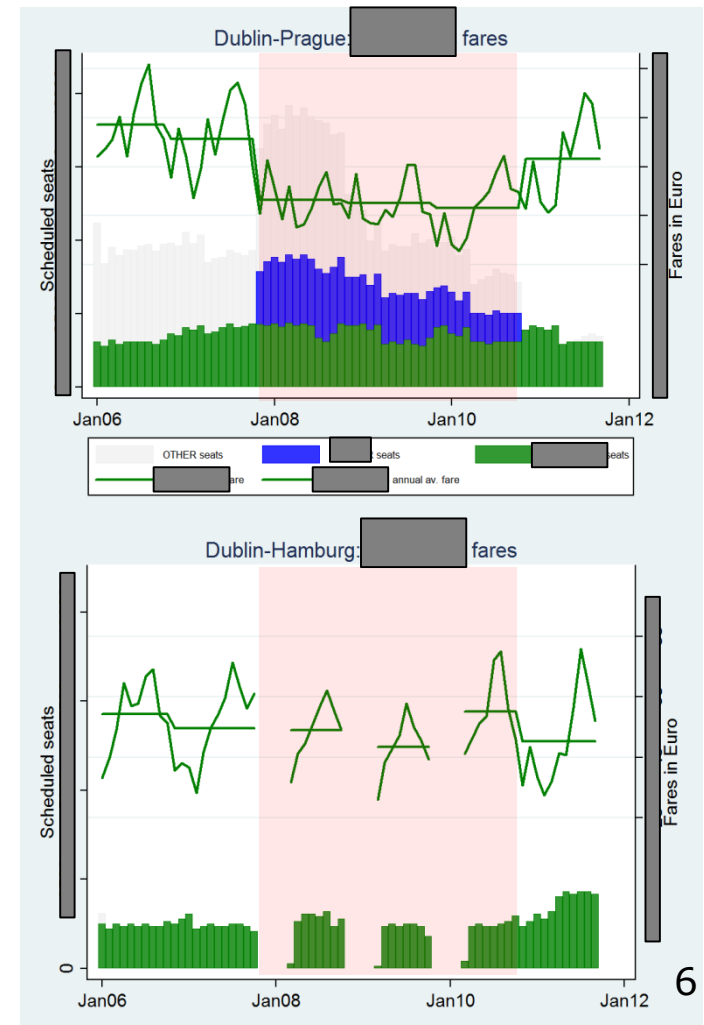
Two low cost airlines - merger

Change in fare on entry route
compared to

Change in fare on benchmark route(s)

"Difference-in-Differences"

"Controlling for other factors"



Economics in young agencies

Get well-trained economists. Integrate them with the case team.

Own modelling is typically not necessary. Often it is enough to study the literature to identify possible theories of harm – and caveats.

Spell out assumptions. Explain what the counterfactual is. Check that the narrative is consistent with the incentives of the relevant firms.

Do the facts of the case fit the model/theory? Use of high-power econometrics often not needed.

Write a complete story and include caveats – all in plain language.

Econometrics is resource-intensive – proceed cautiously.

Start early, issue clear and detailed data requests, engage with parties, customers and complainants.

Even simple econometrics must be executed and interpreted carefully.