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PRICING, CONCENTRATION & PUBLIC POLICY: THE U.S. AUTOMOBILE MARKET

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ABSTRACT

The U.S. automobile market experienced dramatic changes in concentration over the six decades after World War II. In addition to dynamic changes in market structure, the U.S. automobile market experienced significant public policy changes in the form of price and export controls. This experience provides a unique opportunity to test the effect of changing concentration on prices and the effectiveness of controls in a highly visible, dynamic industry. We identify a threshold concentration level below which prices converge to competitive equilibrium. Above this threshold, pricing is essentially consistent with monopoly pricing. Price controls appear to have reduced automobile prices while export controls had little discernible overall effect.

JEL categories: D43, L13, L62, R4

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