Using the 2010 revised DOJ Horizontal Merger guidelines (you can get the full version from the DOJ web page) and DOJ guidelines for vertical mergers, write a paper arguing either for or against the proposed merger of AT&T and Time Warner companies. The proposed merger would vertically merge a communications/internet provider with a content provider. AT&T is well-known (they also just merged with Direct TV). Time Warner owns CNN, HBO, and Warner Brothers Studios. They divested Time Warner Cable previously.

I will give you a summary of the guidelines for horizontal mergers in class. (You can also find them on the DOJ website, although the document is very long.)

Here are the guidelines for vertical mergers:


Note that since AT&T is merging with Time Warner, that the primary market is communications/internet provision and the secondary market is content provision. The Chicago School has argued that nearly all vertical mergers are welfare enhancing. I will give you the theory on this in class. Other economists are more guarded. The DOJ is concerned about two aspects of vertical mergers, but only insofar as they negatively impact horizontal markets.

1. First, they want to be sure that vertical mergers do not increase the market concentration in the horizontal markets.

2. Second, they do not want the vertical acquisition to become a pre-requisite for entry into the horizontal market by new firms. If so, this would increase the monopoly power of the firm in the horizontal market.

Here is what you must do in the paper:

a. Briefly summarize the current DOJ Anti-merger guidelines for horizontal and vertical mergers. For this project you need to worry primarily about the latter via their impact on horizontal markets, which is the primary concern of the DOJ.

b. Define the relevant product and geographic horizontal markets in which the two companies are involved. Keep in mind that the relevant geographic markets may be local, regional, or national. The relevant geographic market for content providers may be a national one. The relevant geographic market for cable may be a local one. The product market is also complex. The cable companies deal with content providers (entities that make movies and television shows), end-use customers, and independent TV stations. You may wish to argue that these are three separate product and geographic markets. In determining the product markets, keep in mind that AT&T may compete with other cable companies as well as non-cable companies that use satellites to provide television signals and with companies which provide internet and phone service via phone lines. Each product market must be associated with its own geographic market before an HHI index can be calculated. You will have to make these types of decisions based on theory and data.
c. Compute the HHI indices for all the relevant horizontal geographic and product markets. You should be able to find sources on the internet that have already made these calculations. Argue whether the DOJ should allow the vertical merger based on the two concerns of the DOJ mentioned above.

d. Other parties raise another concern: that an AT&T/Time Warner merger would allow the new company to supply CNN and HBO at lower rates to their customers than charged to other content providers and their customers. To get some evidence as to whether this is a real concern, look at what happened after the Comcast/NBC-Universal merger in 2011, which combined an internet provider with a content provider. Is this concern valid? Why or why not?

e. Better service, lower prices, more diverse offerings, and less bundling are possible positive effects of a vertical merger that could offset any increase in monopoly power. AT&T argues that the merger would allow them to know better what viewers are watching and what they want. Is this a valid argument? One improvement in service that AT&T has mentioned is the creation of a wireless network using 5G. Will the merger help in the development of a 5G network, which would provide competition against monopoly cable companies? Is this a valid argument? Can we expect better service, lower prices, more diverse offerings, and less bundling from the merger?

f. Comment on the proposed Comcast/Time Warner Cable merger that was blocked by the DOJ out of fear of too much power in the hands of a distributor. Is the proposed AT&T/Time Warner merger fundamentally different?

g. Draw a conclusion as to whether the merger should be allowed or disallowed.

OTHER IMPORTANT DETAILS FOR PAPER

1. Sources for the paper:
   a. The DOJ web site, the New York Times (see articles on 10/23 and 10/24), the Wall Street Journal, and the Economist are obvious starting points.
   c. Use the internet with care—be sure to cite all sources carefully.

2. I want you to work in groups of two for this paper. See me for approval of any exceptions. The Econ 4350 students will turn in a typed paper with no more than 5 pages of text during the last week of class. Four pages will be double spaced text, 12 pt. type, normal margins, with one page for references. Use a title page that does not count toward the page limit. If you exceed 5 typed pages, I will not read the additional pages. Up to three pages of figures and tables can be included beyond the 5 page limit. The Econ 6350 students will turn in a 10 page typed paper with up to 5 additional pages of figures and tables and give a 10 minute powerpoint presentation. I will not read any pages beyond the allowed limit. All presenters must give me a xerox of all slides with all authors names on the cover sheet.