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Multimarket Contacts and Firm Asymmetries: Japanese Domestic Airline Markets¹

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Abstract

Multimarket contacts have power to induce tacit collusion. This device adds another spice to the balance of competition between firms only under conditions of firm asymmetries. Under this condition, multimarket contacts increase the likelihood of tacit collusion. Our reduced form analysis shows the positive correlation between multimarket contact and prices, where robustly verified in both regression, firm-level and market level. This means that multimarket contacts lead to the rise in price and therefore induce tacit collusion. In addition, this result implies the existence of (unobserved) firm asymmetries.

JEL Classifications: C73, L13, L93

Keywords: Multimarket Contacts, Tacit Collusion, Firm Asymmetries

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