

Abstract

Understanding market boundaries has engaged the attention of multiple disciplines in social sciences. In strategic management and marketing, there is a long tradition of using industry cases and multivariate analysis of consumer- and product-characteristics to delineate market boundaries. In various disciplines in economics, price based methods for market determination are well researched. Though price is a strong signal on market exchange, empirical methods for delineating market boundaries based on prices are scarce in management disciplines. Empirical determination of the conduct of firms in an industry is intertwined with the question of market extent and has engaged industrial organization researchers for many decades. I propose a test strategy for determination of extent of a market and its conduct based on propositions from a dynamic general equilibrium model of growth due to Sinha (2004). The determination of market extent is based on time series analysis of prices along with estimation of cross-price elasticities. The method allows for testing for the extent of market, and provides insights on how prices behave over time. The proposed methodology overcomes the various limitations of empirical methods used in extant literature to infer market extent. I demonstrate the test strategy using data from two industries in India – sugar and cement. For these industries I obtain insights about market extent and conduct of firms with data on prices, quantities, convergence in technology and technological change. The research contributes to empirical methodology by providing a general test strategy for determination of market extent by using cointegration tests corroborated with evidence on cross-price elasticities. The method is general in its applicability as is relevant for markets defined over dimensions like geography, product characteristics and so on. The related method to determine conduct of firms is relevant to competition analysis. The proposed empirical methodology for extent and conduct is relevant for research in anti-trust policy, development economics and industrial organization research. The approach to identifying price leadership is particularly relevant for management research and practice. Since none of

the empirical essays deal with differentiated goods or were at the firm level, further studies are needed before the broader relevance of this approach can be assessed for management research and practice.