Measuring competition in the Dutch economy

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Abstract

This paper estimates a new measure of competition using Dutch firm level panel data. The idea is to estimate for each industry the percentage loss in profits if a firm's marginal costs go up with 1 percent. In a competitive industry an increase in marginal costs with 1% leads to a bigger loss in profits than in an industry where competition is not intense. Hence the higher this elasticity (in absolute value) of profits with respect to costs, the more competitive the industry is. We show that for the Dutch economy manufacturing sectors are -on average- more competitive than service sectors. If this elasticity falls over time within an industry, the industry is becoming less competitive which may be caused by collusion. In this sense the competition measure may give a first indication that something is (going) wrong in a certain sector.