

Double-Marginalization and Vertical Integration: Evidence from Paramount Antitrust Case of 1948

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Abstract

Spengler (1950) argued that while horizontal integration may lower welfare through price increases, vertical integration may actually increase welfare through the elimination of double-marginalization and lower prices. Therefore, antitrust policy should not ban all types of integration and rule on a case by case basis. While this may apply to many industries, Spengler was inspired by the antitrust case where Paramount and seven others were accused of using their downstream market power to prevent entry in movie production and distribution. As a result, the Supreme Court mandated in 1948 that Paramount and the others to stop movie bundling practices and sell their US theatre holdings. In this paper, I empirically analyze whether vertically separated theaters charged lower prices than vertically integrated theaters. For this purpose, I use a unique data set collected from old issues of Variety magazine between 1945 and 1955. This data set provides weekly movie theater information on prices, revenues and theater ownership for a sample of 392 theaters located in 26 different metropolitan areas. My findings show that vertically integrated theaters charged lower prices and sold more admission tickets than non-vertically integrated theaters. I also find that the rate at which prices increase in theaters were slower before vertical separation than it was after separation.

*The usual disclaimer applies.

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