Review of: "Measuring the Deviations from Perfect Competition: International Evidence"

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This paper presents an interesting idea but it leaves a lot to wish for, including some clarifications. I have the following comments:

1. Moving from the price and quantity of an individual commodity to CPI and GDP is not straightforward as it involves some (serious) aggregation problems. What is true at a micro level may not be so at the macro level. I think that these problems should be discussed to justify the transition from microeconomics to macroeconomics.

2. When two time series are converted into indices, comparing the absolute values of the two indices at a particular point in time is meaningless (as in saying that Colombia and Mexico have the marginal cost above the price level in the 1970s).

3. I must warn of the hazard of using cointegration as a test for spurious correlation. I cannot imagine that two highly correlated variables turn out not to be cointegrated by using the EG test on any other test. Spurious correlation can only be determined by economic theory, common sense and intuition. I have seen some evidence indicating that the consumption of margarine and the divorce rate are cointegrated.

4. If cointegration must be used, then I agree that the EC test (based on Granger's representation theorem) is better than the EG test. The author states that the t statistic must have a high value, but how high? I think that Kremers et al. (1992) provide critical values.

5. How does monetary policy act as an obstacle to perfect competition? Can you give an example?

6. The impression I get by reading this paper, and I could be wrong, is that the private sector strives to achieve perfect competition but the government does not allow it. It is true that some regulatory measures give monopoly power to some firms, but I would imagine that the underlying firms would welcome that.

References

Jeroen J. M. Kremers, Neil R. Ericsson, Juan J. Dolado, The Power of Cointegration Tests, Oxford Bulletin of Economics and Statistics, 54, 325-348.