Research Statement of Charles J. Thomas

I conduct research in industrial organization, with associated interests in antitrust policy, microeconomic theory, experimental economics, and environmental economics. My work uses game-theoretic tools to analyze strategic behavior, and I have papers on topics such as negotiations, pricing, collusion, entry, and mergers. Much of my research uses auction models to evaluate a variety of issues in procurement settings, because such models usefully describe price-setting environments with incomplete information.

This statement provides context about the origins of my research, and it briefly describes my future research plans. Perusing my papers will provide more insights about my research.

Some of my research is directly influenced by my public policy experience at the US Federal Trade Commission, where for investigations and litigation I provided economic analyses regarding competition in industries such as ready-to-eat cereal, baby food, prescription pharmaceuticals, drug wholesaling, entertainment, Internet service provision, petroleum, industrial chemicals, and smokeless tobacco. For example, my paper evaluating the price effects of imposing firewalls as a condition for permitting vertical mergers stems from several antitrust cases in which such requirements were imposed. My analysis provides observable conditions under which imposing firewalls to prevent the flow of proprietary information can lead to higher prices than if the flow of information were unimpeded. The prospect of this unintended consequence was not previously known, because firewall provisions were imposed without the benefit of formal analyses of their effects in settings like the one I considered. Likewise, my paper on the competitive effects of horizontal mergers among asymmetric firms was prompted by merger investigations in procurement markets, and by my recognition that mergers in such settings had been subject to little formal analysis. My analysis yielded observable predictions about the likelihood of a merger causing competitive harm, and also introduced a more general notion of efficiencies that revealed a broad class of profitable mergers that normally would have been overlooked.

The rest of my research is shaped more generally by my time at the FTC, in the sense that my papers tend to be oriented toward analyzing practically relevant issues. My papers on multimarket contact and on collusion in procurement settings reflect this influence, but the best example is my series of experimental papers on multilateral negotiations co-authored with Bart J. Wilson, and my subsequent sole-authored theory papers. This stream of research began during an investigation of drug wholesalers in the US, with the observation that auctions and multilateral negotiations were used by apparently similar buyers in narrowly defined markets. That work provided the first formal analysis of multilateral negotiations as a procurement mechanism, and provided evidence regarding the relative performance of auctions and negotiations.

Moving forward I expect to continue in much the same manner as I have in the past, developing research ideas when I observe and think about some economic activity. My recent papers on horizontal mergers with contest-level entry fit in this mold; while I cannot clearly recall the idea’s origins, I have collected substantial evidence that such costs are frequently present in merger cases worldwide.

That being said, there are three specific directions I expect to take over the next several years. First, I anticipate many projects will spin off from my recent paper introducing an alternating-offers model of multilateral negotiations. The model provides a tractable foundation for analyzing strategic problems in settings featuring multilateral negotiations, including investment, product design, mergers, hold-up, dual-sourcing, entry, and collusion. I already have experimental research related to that theory paper, and more projects are in their formative stages. Second, I envision taking a deeper look at the workings of intermediate goods markets, some of which hopefully will involve working closely with practitioners to learn how they go about their business of negotiating and writing contracts. My interest in the latter is influenced by my FTC experience of learning about industries by talking with practitioners about how they conduct their business operations. Third, I plan to work on new projects related to my environmental research with my Clemson colleague Bill Dougan, in which we identified a way to allocate pollution rights that is more efficient than either taxes or cap-and-trade. We currently are working to test our initial insight’s robustness by extending our original model in specific ways, and I think there are many further avenues we might explore. I also anticipate there might be related experimental research.