access costs, differential 194–6
access demand
empirical studies 169
model 149–50
access externalities, definition of 180;
see also network externalities
access externalities, and pricing 183–4
and carrier competition 200–203
differential access costs 194–6
differential externalities 196
dynamic pricing models 196–9
and per-message charges 189–94
reduced-form model 184–9
access-pricing 236–8
Bertrand analysis 245–50
Cournot analysis 238–45
Acton, J.P. 166, 168, 204, 205, 280
Adamska, M. 270
alliances, global 74, 256, 263–4, 266–7
Almost Ideal Demand System (AIDS) 163–4
Arrow, K.J. 74
Aschauer, D.A. 299
AT&T 232, 233–4, 263–4, 288, 319
auctions, universal service providers 330–31
Bain, J.S. 122
Baltagi, D.H. 85
Basu, K. 133
Baumol, W.J. 10, 14, 74, 126, 249
Baxter, W. 233–4
Beard, T.R. 127, 131, 133–5, 140, 237
Bebee, F.L. 297, 298
Bell, C. 133
Bell Atlantic 232, 234
Berndt, E.R. 103
Bernstein, J.I. 93
Bertrand competition/analysis, vertical integration 245–50
theoretical literature overview 237–8
Bliss, C. 125–6, 131
Bloch, H. 94
Braunstein, Y.M. 76, 77
Breslaw, J.A. 92
British Telecom (BT) 264
broadband networks, development of 295–6
budgeting/total bill effect study, telecommunications demand 162–4
Bulow, J.I. 129
business telecommunications demand 148–9
cable systems, investment costs 273, 277
Cairns, R.D. 93
call externalities 146–7, 166, 321
call externalities, and pricing 183, 203–5, 226
distortion, sources of 222–4
equal cost sharing 212–15, 216, 217, 219, 220–21
one-way calling 204–16
price menus 215
repeat play/ongoing caller relationships 225–6
sender pays 215, 216–21, 225–6
simultaneous connection and acceptance externalities 215–16
two-way calling 204, 216–26
user cost differences 221–2
capital, measurement of 102
Cardilli, C.G. 234, 235
Caves, D.W. 104, 111, 113
Charnes, A. 76, 112
choice of service study, telecommunications demand 153–7
Christensen, L.R. 74, 75, 83, 92, 104, 106, 107–8, 111, 113, 115
coaxial cable, investment costs 277
Communications Act (1934) 319
Index

competition 120–21, 141–2
and access externalities 200–203
and cross-subsidy pricing 125–8
and flow through of cost changes 128–33
fragmented 133–5
and market structure/sunk costs 121–5
merger simulations/product market
competition models 136–41
see also global competition/
operations
competition policy 121–2, 141, 233–5, 269
merger simulations 136, 140–41
and sunk costs/market concentration 124–5
see also Federal Communications
Commission (FCC); regulation;
settlements (international),
reform
cost-based pricing 269–70
cost function estimation 74–5, 95
data issues 78–82
functional forms 75–8
results 91–4
and technical change 82–6, 91–4
testing 86–90
uses of 89, 91
see also total factor productivity
(TFP)
cost functions, subadditivity of 1, 30, 75
calculation of subadditivity
measures 24–6
combined economies of scale and
scope 15–21
data 37–9
divisional cost functions, speci-
fi cation of 2–6
economies of joint production/
scope/shared overheads 10–15
empirical results 26–30, 40–51
fixed costs, recoverability of 19–21
overall cost function and economies
of scale 6–10
proofs of propositions 31–6
subadditivity tests, results of 52–71
technical progress, specification of, and estimating form 21–4
costs
access, differential 194–6
flow through of 128–33
investment, cable systems 273, 277
reductions, due to telecommuni-
cations networks 296
sunk, and competition-market
structure 122–5
switching 130, 137–9
transaction 222–3, 258
trends, long-distance communication 257–8, 259, 261–2
see also cost function estimation;
cost functions, subadditivity of;
infrastructure, telecommunica-
tions, and economic development
Cournot competition/analysis, vertical
integration 238–45
theoretical literature overview 236–7
Crandall, R.W. 106, 107, 112, 321, 324–5, 326, 327, 330, 332
Cronin, F.J. 298, 299, 300, 301–2, 303
cross-subsidies 125–8
differential access costs 194–6
and universal service funding 317–18, 319, 324–5, 326–30, 331–2
customer information, and pricing 181
customer-premise equipment 148, 169
davis, B.E. 74
deaton, A.S. 163
deGraba, P. 226
demand, telecommunications
access demand model 149–50
analysis, current/future challenges 168–70
basic features 145–9
budgeting/total bill effect study 162–4
business demand 148–9
choice of class of service study 153–7
empirical literature overview 164–8, 169
empirical studies 153–64
Extended Area Service (EAS) studies 157–60, 169
and infrastructure investment 310
international 168
point-to-point toll demand study 160–62
price elasticities 162–4, 167–8
structural change 167
theoretical considerations 149–52
toll demand models 151–2
Denny, M. 90, 92, 104, 108, 109
Dhokalia, R.R. 298
Diamond, P. 209
Diewert, W.E. 1, 3, 74, 75, 81, 85, 93
disembodied technical change 83
Dobell, A.R. 74
Domar, E. 107
duopoly, fragmented 133–5
economic development, see economic development
Economides, N. 237
economies of density 110–13
economies of scale 111
and cost function estimation 91–4
importance of 30
international capacity 257–8
see also cost functions, subadditivity of
economies of scope
and cost function estimation 92–3
definition of 10
importance of 30
measurement of 90
as special case of subadditivity 14
and vertical integration 234
see also cost functions, subadditivity of
efficient component pricing rule (ECPR) 249–50
Eichorn, W. 81
elasticity of scale 89–90
embodied technical change 83–4
Evans, D.S. 1, 21, 26, 76, 90, 92, 112
Extended Area Service (EAS) studies,
telecommunications demand 157–60, 169
externalities, see access externalities, and pricing; call externalities; call externalities, and pricing; congestion externalities; network externalities; pricing, and external effects
Federal Communications Commission (FCC)
current approach/policies 290
and input price differentials 115
and settlement reform 274, 280, 281–2, 285, 286, 288–90
and universal service 330
fiber optic technology 257
investment costs 277
Fisher Ideal index, cost function estimation 81
fixed costs, long-distance communication systems 257, 259
flow through (costs/prices) 128–33
Ford, G.S. 133–5
Fuss, M. 74, 75, 93, 103, 108–10
Galbi, D. 261, 262, 264, 265
Galst, J. 106, 107, 112
Gatto, J.P. 166
Gentzoglanis, A. 93
Gilling, E.J.W. 297, 298
global competition/operations 74, 256
business structure/strategy 262–7
competitive strategies 267–8
cost trends, long-distance communication 257–8, 259, 261–2
expansion options 266
global alliances 256, 263–4, 266–7
industry economics 257–62
organizational history of 263–5
policy issues 268–71
and security/reliability of networks 260
and unbundled network elements (UNE) 267
and value distribution 261–2
wire-line v. wireless technology 258–60
global competition/operations (cont.)
see also settlements (international), reform
Global Crossing 258
Global One 264
Global Virtual Network Services Forum (GVNS) 264
Gollop, F.M. 84
Gong, J. 204, 205
Gort, M. 94
Griffin, J.M. 85
Griliches, Z. 103

Hahn, J.-H. 204, 205
Hardy, A.P. 297
Harlam, B. 298
Hausman, J. 323, 327
Heckman, J.J. 1, 21, 26, 76, 90, 92, 112
Hermalin, B.E. 216
Hicks, J.R. 82–3
Hulten, C.R. 102, 103

income redistribution, and universal service 322, 324–5
incremental-cost pricing 181
industry standards, and global alliances 266
information exchange, dynamics of 147
infrastructure, telecommunications, and economic development 293–4, 309–11, 320, 321–2
aggregate contribution of capital 297–9
components of/services provided by infrastructure 294–7
direct/indirect effects of investment 299–300
econometric cost model 302, 304–9
global aspects 310–11
input–output (I–O) analysis 301–2, 303
productivity growth, telecommunications 299–300
infrastructure development, less-developed countries (LDCs) 289–90
input–output (I–O) analysis, telecommunications investment 301–2, 303
input substitution 300, 307–8
INTELSAT 289
interconnection rates, international, see settlements (international), reform
international competition, see global competition/operations
international demand, telecommunications 168
International Telegraph (later Telecommunication) Union (ITU) 273–4, 281
Internet
access, empirical studies 169
and business telecommunications demand modeling 149
interconnection protocols 265
revenue potential 261
and structural change, telecommunications industry 167, 169

Jacob, R. 163–4
Jipp, A. 297
Johnson, L.L. 274
Jorgenson, D.W. 82, 90, 103, 106

Kang, J. 237
Katz, M.L. 216
Keating, C. 264
Kiss, F. 75, 92, 108, 109
Kridel, D.J. 158–60
Krouse, C.G. 93–4
Kwoka, J. 112

Laffont, J.-J. 320, 322, 323, 327
Lande, J.M. 107
Larson, A.C. 160–62, 166
Laspeyres indices, cost function estimation 79–81
Lee, C. 298
Lefebvre, B.J. 75, 92
local exchange carriers (LECs)
input price differentials 115
total factor productivity (TFP) studies 106, 107–8, 111–13
Madden, G. 261, 280, 298
Mandy, D. 237
market entry, model of 122–4
marketing, importance of telecommunications in 148
McFadden, D.L. 157
MCI 232, 264
Melody, W.H. 265
merger simulations 136–41
mergers, see alliances, global; vertical integration
Milgrom, P.R. 208
mobile telecommunications, technological developments 295
monopolies, natural, and subadditivity of cost functions 1, 14
monopoly pricing, see access externalities, and pricing; access-pricing; call externalities, and pricing
Moss, M.L. 297
Muellbauer, J. 163
Mueller, M.L. 318–19, 323
Myers, G. 265
Nadiri, M.I. 91, 94, 106, 300, 302
Nam, K. 265
Nandi, B. 94, 300, 302
Nerlove, M. 74
network externalities 145–6, 166, 169, 295, 296–7
econometric cost model, telecommunications infrastructure 302, 304–9
and universal service 320, 321
see also access externalities, and pricing
network size and pricing/access externalities 184–9, 196–9
and total factor productivity (TFP) 111–12
network unbundling 124, 267, 269
Ngo, H. 93
Nihoul, P. 269
non-joint production, testing for 90
Odlyzko, A. 261
Oniki, H. 109, 110, 114
opportunity cost of time, and telecommunications usage 149
option demand 147–8
output growth, effect on total factor productivity (TFP) growth 110–13
measurement methods 101
overbuilds, and pricing 133–5
Paasche indices, cost function estimation 79–81
packet switching 295
Panzar, J.C. 74
penetration pricing 198–9
per-message charges, and access externalities 189–94
Perl, L.J. 150, 165, 166
Pfeifer, P. 129
Pinto, C. 90
point-to-point toll demand study 160–62
price cap regulation consumer productivity dividend 114
input price differentials 115
and total factor productivity (TFP) 104–5, 107–8, 110, 113–16
X factor, setting 113–14
price-floor (P-F) constraint 247
pricing cost-based 269–70
cross-subsidies 125–8, 194–6, 317–18, 324–5, 326–30, 331–2
and external effects 180–83, 226
and flow through of costs 128–33
and merger simulations 136–41
and overbuilds/fragmented competition 133–5
retail 125–6, 127–8
and universal service 317–18, 322–5, 326–30, 331–2
see also access externalities, and pricing; access-pricing; call externalities, and pricing
product bundling 125–8, 130, 234–5
productivity growth, telecommunications sector 299–300; see also total factor productivity (TFP)
Project Oxygen 258
Pulley, L.B. 76, 77
Qwest Communications 232–3
reciprocal calling, point-to-point toll demand study 160–62
Regional Bell Operating Companies (RBOCs) 232, 234–5
regulation 268–9, 311
and competition 121–2
cost-based pricing 269–70
current environment 319–20
efficient component pricing rule (ECPR) 249–50
and flow through of cost changes 128
and market concentration 124
network unbundling 124, 267, 269
price cap 104–5, 107–8, 110, 113–16
price-floor (P-F) constraint 247
and social policy 316–17
see also competition policy; Federal Communications Commission (FCC); settlements (international), reform; universal service reliability, communications 260
resource savings, due to telecommunications advances/investment 301–2, 303
econometric cost model 302, 304–9
restructuring, telecommunications industry, see vertical integration
retail pricing 125–6, 127–8
revenues, international, and settlements 273–4, 275–6, 279–80
reverse calling, point-to-point toll demand study 160–62
risk diversification, and global expansion 262–3
Roberts, M.J. 84
Röller, L.-H. 75, 76, 93, 112
Rubinstein, A. 223
Sappington, D. 233
satellite communications
INTELSAT 289
technology 257
Saunders, R.J. 297
Savage, S. 261, 280, 298
Schankerman, M. 91, 106
security, communications 260
service choice study, telecommunications demand 153–7
settlements (international), reform 273–8, 288–90
accounting rules/rates 278–81
competition, current state of 285–8, 289
domestic entry/reciprocal compensation 282–4
policy 280, 285
Shephard, R.W. 82
Shin, R.T. 93, 112
Shleifer, A. 266
Smith, J.B. 91, 92
social rate of return, telecommunications investment 302, 308–9
Spavins, T.C. 107
Spence, A.M. 188
Spiller, P.T. 234, 235
Sprint 288
Spulber, D.F. 126
Squire, L. 204, 215–16
Srinagesh, P. 204, 205
Stanley, K. 265, 274
subadditivity of cost functions, see cost functions, subadditivity of
Sumner, D.A. 129
Sung, N. 94
sunk costs, and competition/market structure 122–5
switching costs
and merger simulations 137–9
and multi-product pricing 130
Taylor, L.D. 321, 323, 327
technological change 295–6
and cost function estimation 82–6, 91–4
and cost reductions 257
embodied/disembodied 83–4
measurement of benefits 310
wire-line v. wireless technology 258–60
telephone density/penetration studies 297–8
and universal service 320, 322–4
time, opportunity cost of, and telecommunications usage 149
Tirole, J. 320, 322, 323, 327
toll demand
empirical studies 157–64, 165–6, 169
models 151–2
Törnqvist index, cost function
estimation 81–2
total bill effect/budgeting study,
telecommunications demand
162–4
total factor productivity (TFP) 100,
115–16
aggregation of inputs and outputs
103–5
Canadian studies 108–10
capital input measurement 102
growth of, effect of output growth
110–13
methodological issues 100–105
output measurement 101
and price cap regulation 104–5,
107–8, 110, 113–16
studies 105–13
United States studies 105–8
Train, K.E. 153–7, 166
transaction costs
and international capacity,
acquisition of 258
and message exchange values 222–3
unbundled network elements (UNE)
267
unbundling 124, 267, 269
universal service 315
auctions, service providers 330–31
criticisms/failure of 318, 331–2
current environment 319–20
definitions 316–18
and externalities 320, 321
funding mechanisms 317–18, 319,
322–32
history of 318–19
and household expenditure 325–6
implementation methods 317, 322–7,
330–31
and income redistribution 322,
324–5
and infrastructure development
321–2
policy goals 316–17, 320–26
telephone penetration, goal of
increased 320, 322–4
unique nature of 326
Uniworld 264
US West 232–3
Vail, T. 318
value distribution, likely trends 261–2
vertical integration 232–3, 250–51
Bertrand analysis (access-
pricing/exclusionary behavior)
245–50
Cournot analysis (access-
pricing/exclusionary behavior)
238–45
demand-side considerations 234–5
exclusionary behavior, incentives for
236–8
public policy issues 235, 245
and security/reliability 260
supply-side considerations 233–4
Vickers, J. 236–7
Vinod, H.D. 74
Vishny, R. 266
Voeller, J. 81
Vogelsang, I. 166, 168, 204, 205, 280
voice telephony, importance of 261
Wales, T.J. 1, 3, 85, 93
Waverman, L. 74, 75, 93, 113, 321,
324–5, 326, 330, 332
‘Weak Invisible Hand’ theorem 126
Weisman, D. 233, 237, 238
Weller, D. 330
Williams, M. 237
Willig, R.D. 74
wire-line v. wireless technology 258–60
World Trade Organization (WTO),
telecommunications agreement
282–4, 286–7
WorldCom 288
Ying, J.S. 93, 112
Zellner, A. 75
Zona, J.D. 163–4