Abstract
Boone (2008) introduces a new theory based measure of competition, the so-called Boone-indicator. The indicator is based on the relationship between performance, in terms of profits, and efficiency, measured as marginal costs. Whether the indicator is able to correctly measure competition in practice is an unanswered question yet. In this paper, I provide empirical evidence that the Boone-indicator appropriately is measuring levels of competition. To this purpose, I follow a seminal paper by Genesove and Mullin (1998) where they show that the elasticity-adjusted Lerner index is able to identify regimes of price wars from nonprice wars by comparing the outcomes of this index with independent reports on the regimes of competition for the American sugar industry for the period 1890-1914. Using their data, I construct a proxy for profits. I calculate both the elasticity-adjusted Lerner index as the Boone-indicator for a single firm, the American Sugar Refining Company. Using the same data, I am able to demonstrate empirically that the Boone-indicator is better able to identify the different regimes of competition than the elasticity-adjusted Lerner index. The Boone-indicator, therefore, adds value to the insights provided by the elasticity-adjusted Lerner index. Several robustness checks are performed that show that the results are insensitive for alterations in the profit proxy.