

**Abstract**

The Panzar-Rosse test has been widely applied to assess competitive conduct, often in specifications controlling for firm scale or using a price equation. We show that neither a price equation nor a scaled revenue function yields a valid measure for competitive conduct. Moreover, even an unscaled revenue function generally requires additional information about costs and market equilibrium. Our theoretical findings are confirmed by an empirical analysis of competition in banking, using a sample covering more than 110,000 bank-year observations on almost 18,000 banks in 67 countries during 1986-2004.