Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of 2010 Quadrennial Regulatory Review—Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996, Notice of Inquiry.

MB Docket No. 09-182,

RE: DA 10-1084 Released: June 16, 2010.

In Public Notice DA 10-1084, the FCC called for comment on its proposed topics for media ownership studies. This letter is in response to that request. We suggest that the FCC Commission a further study that modifies the terms of Study 9, such that experimental techniques should be allowed in addition to simulations to calibrate any theoretical model. In particular, the questions raised by Statement of Work for Study 9 on the "Theoretical Analysis of the Impact of Local Market Structure on the Range of Viewpoints Supplied," are complex. Although economic theory has much to say here and would provide a guideline for showing how the parameter values and the implicit assumptions adopted by the FCC impact the results, it is impossible to be sure *ex-ante* that any model would be able to provide a definite benchmark for rule making.

1. Experimental economics has a long history of helping contribute to precisely this type of complex problems, where theory provides guidance, but there remain factors that need to be determined in a behavioral "wind tunnel," before a policy can be chosen. Indeed, experimental economics played a key role in helping the FCC determine the final design of the PCS spectrum license auctions.[1] In addition, the FCC has also used economic experiments to analyze media ownership issues. In particular, the FCC used experiments to examine how the national cap on cable ownership would affect programming.[2]

Moreover recent work in behavioral economics suggests that people may exhibit behavioral biases in how they gather and use information.[3] Any such behavioral biases may impact the performance and competition in media markets affecting precisely the questions raised by Study 9.[4] In particular it fundamentally important to recognize if media bias emerges due to behavioral concerns, such as profit maximizing response to citizens biases (or informational preferences) as assumed in Mullainathan and Shleifer, versus emerging because of ownership structure and any owner's desire to promote a political viewpoint. Experiments could play a key role here in

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[1] See for example Paul Milgrom, "*Putting Auction Theory to Work*" Cambridge U. Press 2004.

[2] FCC OSP Working Paper #35 "*Horizontal Concentration in the Cable Television Industry: An Experimental Analysis"* by Mark Bykowsky, Anthony Kwasnica, William Sharkey, June 2002

[3] See for example Isabelle Brocas, Juan D. Carrillo and Thomas Palfrey "Information Gatekeepers: Theory and Experimental Evidence" mimeo, USC and Caltech.

[4] See S. Mullainathan, and A Shleifer – "The Market for News" *American Economic Review*, 2005 pp. 1031-1053

quatifying if behavioral biases are a concern. Allowing for experimental analysis to complement the theoretical analysis and calibrate the models will significantly increase the likelihood that any such work will be able to help the FCC develop a record that will assist in implementing the FCC's media policy goals include competition, localism, and diversity.

Therefore we suggest the following changes. In the FCC's RFQ for Study Nine the description of the Statement of Work includes the following:

> **Specific Requirements: Theoretical Analysis of the Impact of Local Market Structure on the Range of Viewpoints Supplied**
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> 2. The Contractor shall provide a theoretical model of the impact of local market structure on media owners' incentives to shape the distribution of information. The implications of the model shall be derived under varying assumptions regarding owner incentives (e.g., profit maximization, promotion of particular political interests). As noted above, the Commission's diversity goal includes the provision of diverse viewpoints on important public issues. Although the primary focus of this study is to be theoretical, the Contractor may propose simulation studies of his/her theoretical models using parameters from US media markets. Contractors proposing simulation studies shall use the Government Furnished Information to parameterize their simulations.
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> 3. The Contractor shall prepare a study that documents the contractor's analysis of the items addressed above. If the study involves simulation or computation (in addition to pure theoretical analysis), the Contractor shall provide to the FCC all raw data used in the Study, with documentation of its source and shall supply any other information utilized in simulation exercises. The Contractor shall also provide any transformation of the data made in preparation for the analysis, and documentation of the data transformation process and the statistical procedures followed such that the Government has sufficient information to reproduce Contractor's analysis. The Contractor shall provide the computer code for any simulation procedure conducted, including annotation of any program or code provided, such that the Government has sufficient information to reproduce Contractor's analysis.

In response to a question as to tid experimental studies would be included the Commission responded negatively in the public response to questions. (See "Answers and Questions for FCCRFQ1000000QR9" posted at http://www.FedBizOpps.gov.)'

We suggest that the above language be amended to explicitily allow for experimental methods to calibrate the theoretical model, in addition to simulations. In particular the paragraph 2 above should be amended to:

> The Contractor shall prepare a study that documents the contractor's analysis of the items addressed above. If the study involves simulation, *experimental analysis*, or computation (in addition to pure theoretical analysis), the Contractor shall provide to the FCC all raw data used in the Study, with documentation of its source and shall supply any other information utilized in simulation exercises. The Contractor shall also provide any transformation of the data made in preparation for the analysis, and documentation of the data transformation process and the statistical procedures followed such that the Government has sufficient information to reproduce Contractor's analysis. The Contractor shall provide the computer code for any simulation procedure conducted, including annotation of any program or code provided, *and / or computer code and instructions for any experimental treatments*, such that the Government has sufficient

information to reproduce Contractor's analysis.

Simon Wilkie

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Los Angeles California, July 7th 2010