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George S. Ford, Chief Economist

3 September 20071 September 2007

Jonathan Levy
Deputy Chief Economist
Federal Communications Commission
445 12th Street S.W.
Washington, D.C. 20554

RE: Peer Review of REVIEW OF THE RADIO INDUSTRY, 2003 by George Williams, Federal Communications Commission

Dear Jonathan:

At your request, I have reviewed the study entitled Review of the Radio Industry, 2003, by Commission Senior Economist George Williams. Per your instructions, I have considered the following: (1) whether the methodology and assumptions employed are reasonable and technically correct; (2) whether the methodology and assumptions are consistent with accepted economic theory and econometric practices; (3) whether the data used are reasonable and of sufficient quality for purposes of the analysis; and (4) whether the conclusions, if any, follow from the analysis. Also per your instructions, I will not "provide advice on policy," but limit my discussion to the four listed standards above. I am aware that this review is not anonymous. To my knowledge, I have no potential conflicts of interest in this proceeding or on these issues more generally.

The Review of the Radio Industry, 2003, is an 82-page document excluding a title page. There are 13 tables and charts in the 29-page body of the document. There are 6 Appendices.

This study is primarily a collection of statistics on the radio broadcast industry. No new theoretical or empirical techniques are proposed, presented or employed. The discussion of the descriptive statistics relies on established techniques and theoretical concepts. For example, the study's discussion of market concentration makes use of the concentration ratio (CR1, CR2, and CR4), which is a widely accepted and informative measure of market or industry concentration. The financial ratios used in Section 4 (Radio Industry Financial Performance) are also established indicators of financial performance from both a practical and theoretical perspective. As such, their use in a study of this type is reasonable. Further, the interpretation of the trends in these financial indicators is consistent with standard professional practice. While others may have different interpretations of the trends, those used in this study are sensible and consistent with professional standards. It appears that sufficient detail and discussion on these financial ratios is provided so that the underlying data could be reproduced by other researchers.

Perhaps the most difficult aspect of radio broadcasting to measure is Format Diversity. The count of formats statistic used in this study is a simple yet plausible measure of Format Diversity.

Much of the data is based on Arbitron defined radio markets, which is consistent with FCC policy on market definition for radio broadcasting. Data used for this study are provided by BIA, Compustat, Arbitron, and Service Quality Analytics Data (SQAD). All of these data sources are generally viewed as reliable and their use for this study is reasonable. Some relevant details and limitations of these data sources are discussed in the study, particularly with respect to the BIA data on ownership.

As for specifics, the statement on Page 16 that the "market to book ratio is a good proxy for a firms 'q' ratio" needs some qualification. The q-ratio is the ratio of market to replacement value, and book value need not represent replacement value. A cite to a study or two that use the market-to-book ratio as a proxy for the q-ratio seems adequate. Also, there are two issues of document format. First, there appears to be a formatting problem with the footnotes, with some having a return between notes while others do not. Second, the study has no Conclusion.

Overall, it is my opinion that: (1) the methodology and assumptions employed are reasonable and technically correct; (2) the methodology and assumptions are consistent with accepted economic theory and econometric practices; (3) the data used are reasonable and of sufficient quality for purposes of the analysis; and (4) the conclusions follow from the analysis. The study is well written, well documented and conveys useful information to both researchers and policymakers.

Sincerely,

George S. Ford
Chief Economist