Total factor productivity measures for Telstra

Ali Ahmed Rushdi*

Australian Competition and Consumer Commission, Level 35, 360 Elizabeth St, Melbourne 3000, Australia

Abstract

Using the Divisia indexation procedure to construct output and input indices for Telstra, this study estimated total factor productivity (TFP) growth rates for the period, 1980–1997. The study reveals that Telstra’s TFP growth rates were significantly higher in the post-reform period compared to the pre-reform period. The study further reveals that the terms of trade for Telstra, defined as the ratio of output prices received and input prices paid by Telstra, has declined more sharply in recent years. This reflects Telstra’s endeavour, under the competitive pressure, to share productivity gains with consumers. © 2000 Elsevier Science Ltd. All rights reserved.

Keywords: Telstra; Total Factor Productivity (TFP); Australia

1. Introduction

Estimates of total factor productivity measure (TFP) for a firm involves construction of an aggregate output index and an aggregate input index. The ratio of the two indices provides the TFP measure that includes the impact of technical progress, economies of scale or of scope and managerial improvements. Although there are ways of decomposing the estimated TFP, an aggregate measure will be sufficient for our purpose. The purpose of the present study is to provide insight into the sharing of efficiency gains between Telstra and its customers.

The present study is an update of the BIE (1995) using more recent data sourced from Telstra and ABS. The methodology used in constructing the input and output indices is basically the same as BIE (1995) and is described briefly in Section 2 of this paper. Section 3 provides estimates of TFP measures for Telstra and Section 4 provides a summary and conclusions of the paper.

*Tel.: +613-9290-1850; fax: +613-9663-3699.
E-mail address: ahmed.rushdi@accc.gov.au (A.A. Rushdi)
### Table 1

Revenue shares for various Telstra services, 1994–1997

<table>
<thead>
<tr>
<th>Period</th>
<th>Total services (%)</th>
<th>Voice services (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Calls</td>
<td>Data</td>
</tr>
<tr>
<td>1994</td>
<td>56.1</td>
<td>13.0</td>
</tr>
<tr>
<td>1995</td>
<td>55.0</td>
<td>9.7</td>
</tr>
<tr>
<td>1996</td>
<td>53.9</td>
<td>10.3</td>
</tr>
<tr>
<td>1997</td>
<td>52.8</td>
<td>11.8</td>
</tr>
</tbody>
</table>

*aSource: BIE (1995), Telstra Annual Reports and ABS.*

1. For details of the indexation procedure, see Diewert (1993).
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