

Audit Market Concentration and Regulatory Reforms*

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Abstract

The audit market is characterized by a high level of concentration which regulators around the world regard as unsatisfactory. Improving the competitive situation is one of the aims of the recent regulatory reforms. In this paper we consider some of the recent reforms and argue that they are likely to increase, rather than decrease, the level of market concentration. To prove this we show that the audit market has the nature of a "natural oligopoly" (Shaked & Sutton 1983). We derive conditions under which reforms such as liability caps, minimum quality requirements, and joint audits have the opposite effects to what is intended.

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