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Audit Prices, Product Differentiation and Economic Equilibrium

Ferdinand A. Gul, Professor

+ Author & Article Information

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This study tests the hypothesis that Big 6 audit prices are higher than non-Big 6 audit prices for both large and small segments of the auditee market. The hypothesis is based on the assumption that these price differentials should be observed given product differentiation and competition in a stable audit market. The absence of price differentials between Big 6 and non-Big 6 auditors for large auditees due to diseconomies of scale to the non-Big 6 (previously non-Big 8) auditors found in some prior studies is inconsistent with long-run allocational efficiency which suggests that inefficient audit firms should be driven out of the market. Results of OLS regression analyses of Hong Kong market data provide evidence to support the above hypothesis that product differentiation and competition prevails in both segments of the market.

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