Horizontal Mergers

Should (horizontal) mergers be allowed?

- Welfare effects of mergers between competitors:
  - Unilateral effects
  - Coordinated effects
- Merger remedies

Unilateral effects

- Example: grocery stores and chain
- Models in Industrial Organization
  - Price competition:
    - All prices go up
    - Consumer welfare decreases
  - Quantity competition:
    - Merging firms output decreases
    - Outsiders increase output
    - Consumer welfare decreases

Variables that affect market power

- Concentration
- Market shares and capacities
- Entry
- Demand variables
- Buyer power
- Failing firm defense

Efficiency gains

- Merged firm may be more efficient
- Example: more efficient chain store
- Sources of efficiencies:
  - Economies of scale or scope
  - Synergies in R&D, distribution and marketing
  - Managerial discipline
- Could these gains be achieved otherwise?
- Asymmetric information

Pro-collusive effects

- Merger may favor collusion:
  - Less firms
  - More symmetry
- Look at factors that facilitate collusion
- Complex analysis

Remedies

- Structural remedies:
  - Divestiture
  - Find a viable competitor
- Behavioral remedies:
  - License technology
  - Give up slots at airports