Mergers

Other Issues

- Predatory Pricing
- Refusal to Deal
- Tie-in
- Mergers
- Cartels

The Economics of Mergers

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Mergers can also promote economic efficiency.

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The Economics of Mergers

Initially courts adopted the "big is bad" rule and looked askance at most monopolies. Modern economic theory argues that there can be economic advantages to a merger.

Mergers

Two Types of Mergers

• Horizontal Mergers
• Vertical Mergers

Mergers

Horizontal Mergers

• Two firms producing the same product merge to achieve economies of scale.

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– Bank A has a huge back office function to clear checks. It can just as easily handle another 500,000 customers.

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– McDonald and Douglas aircraft corporations initially merged to compete with Boeing.
– Boeing and McDonald-Douglas merge to compete with AirBus.
Mergers

**Vertical Mergers**

- A firm in industry A sells its output to industry B.
- Two firms merge to integrate their production.

**Reasons for Vertical Integration**

- Economies of Scope
  - A bank that now sells insurance can have one salesman selling both products to the same person.
Reasons for Vertical Integration

- Economies of Scope
  - A bank that now sells insurance can have one salesman selling both products to the same person.
- Economies of Control
  - A gas company that buys a pipeline does not have to worry about negotiations with the pipeline company.

American vs. European Theory

- Most large mergers require approval from both the Federal Trade Commission and the Monopolies Commission of the European Union.

American vs. European Theory

- US: Is consumer and producer surplus created? If so, approve merger.
- EU test: does this reduce competition? That is, the number of firms selling a product.

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US approved merger, EU did not, and merger died.

Who was right?

End

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