A Multi-Product Framework Generating Waves of Mergers and Divestitures

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James Gaisford and Stefan Lutz*

Recent waves of corporate mergers have sparked new interest in economic analyses of changing market concentration. Traditionally, microeconomic models analyzing the effects of mergers compare the outcome of a fixed number of mergers of some firms in the market with the status quo ante. This paper methodologically extends these approaches by treating all firms in the market as potentially merging or divesting firms. We then develop firms’ merger best responses and derive merger equilibria. Thus, we provide a possible explanation for the emergence of waves of mergers followed by divestitures. Our framework is also applicable to various international trade settings.

JEL classification: L1, L4, F12, F23

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1. Introduction

The waves of corporate mergers during the nineties and at the beginning of the new millenium have sparked new interest in economic analyses of the preconditions and consequences of increasing market concentration. In the EU alone, cross-border mergers reached almost USD 600 Billion in the year 2000 after rising steadily since 1988.¹ Since then, European merger

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* JAMES GAISFORD, Department of Economics, University of Calgary, 2500 University Drive N.W., Calgary, Alberta, Canada T2N 1N4, E-mail: gaisford@ucalgary.ca. STEFAN LUTZ, University of Manchester, School of Social Sciences, Economic Studies, Oxford Road, Manchester, M13 9PL, United Kingdom, E. stefan.lutz@manchester.ac.uk. Lutz is also a Senior Fellow at the Center for European Integration Studies (ZEI), Bonn. This research has been started while Lutz was a visitor at the University of Calgary and while Gaisford was a visitor at the University of Manchester. Financial support for these visits has been provided by the Centre for European Economic Research (ZEW) in Mannheim and through the Manchester School Visiting Fellowship Scheme. We also thank participants at ETSG 2005 in Dublin and at the University of Manchester’s Economic Theory Workshop 2005.

¹ UNCTAD (2000) and UNCTAD (World Investment Report, reported in CESifo Forum, 5(4), Winter 2004). For a general overview of recent developments, see, e.g. Markusen (2002).