

A Multi-Product Framework Generating Waves of Mergers and Divestitures

28 October 2005 (Ver. 1.2)

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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

Keywords: industry studies, MNE, FDI, divestitures, product differentiation, multi-product firms, economies of scope, demand-side externalities

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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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).