“Equilibrium and Strategies of Horizontal Mergers in Asymmetric Differentiated Cournot Oligopoly”

(in English)

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**Venue:** WYL314, Dorothy Y. L. Wong Building

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**Abstract:**

Building an asymmetric differentiated goods quantity competition model, the present paper explores how substitutability of products, one of the factors affecting the unilateral effect, determines horizontal mergers and acquisitions equilibrium and strategies. It seems intuitively obvious that the merger between firms with goods that are sufficiently close substitutes can be more profitable. However, this paper’s counter-intuitive results show that, for some parameter values, a merger is more profitable for the merging firm when the target firm produces distant substitutes (i.e., when it is not the closest competitor to the acquiring firm in the market). The theoretical analysis shows that to merge with a firm with low substitute parameter is more profitable provided that target firms are close enough and the both of them are distant enough from the merging firms. The results in Cournot and Bertrand models share some similarities, for example, they both reduce consumer surplus and in particular the optimal strategy produces the most reduction. However, in the Cournot model, whenever it is profitable to merge with a distant competitor, that is always the optimal strategy, while in Bertrand model, it depends. The paper also extends the classical “horizontal merger paradox” to a setting of asymmetric differentiated oligopoly.