

Stable Market Structures from Merger Activities in Mixed Oligopoly with Asymmetric Costs

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Abstract

This paper examines endogenous merger formations in mixed oligopoly. Applying the core as the solution concept, we analyze what market structure(s) is/are stable when each firm is allowed to merge with any other one(s) in a mixed Cournot industry composed of three firms: two symmetric private firms and an inefficient public firm. We show that a state where a single private firm and a public firm merge can always be stable although stable market structures vary according to the cost condition of the public firm. This suggests that both of social welfare and the profit of each firm become relatively high in the duopoly after the merger between a private and a public firm.

JEL Classification Numbers: L11, L32, L41

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