

Merger paradox reinvestigated :

Firm identity matters

Kosuke HIROSE

Graduate School of Economics

University of Tokyo

2223389948@mail.ecc.u-tokyo.ac.jp

Dan SASAKI

Institute of Social Science

University of Tokyo

dsasaki@iss.u-tokyo.ac.jp

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Abstract

It has been exemplified through game-theoretic models that merger among part, not all, of the firms may reduce their equilibrium joint profits. In this paper we shed a fresh light on the mechanism through which this effect does or does not materialise. In particular, we discover that preservation or destruction of firm identities before and after the merger plays a pivotal role.

Keywords : Partial merger, strategic substitution, Stackelberg, order of moves, inventory, endowment, production efficiency, marginal costs.

JEL classifications : L13, D43.