Hostile Takeovers or Friendly Mergers?: A Real Options Analysis [*]

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Abstract

This paper analyses a real options model of mergers and takeovers between two firms experiencing different, but correlated, uncertainty. It is assumed that firms can choose two alternatives: hostile takeover or friendly merger. In a hostile takeover, a bidder firm takes all the extra value but should incur merger costs, while in a friendly merger both firms do not bear merger costs and share the extra value through Nash bargaining. We shall show with numerical analysis the condition for which firm to be a bidder and for which type of amalgamation to happen.

Keywords: Merger and acquisition; Real options; Nash bargaining.

JEL classification: C61, G32, G34,

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