Compatible Mergers: Assets, Service Areas and Market Power*

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Abstract

We empirically study determinants and consequences of mergers together, using detailed data on the merger waves in the pre-WWII Japanese electricity industry when a competition authority did not yet exist. We find that firms are more likely to merge with the firms (i) having more overlaps in their geographical operating markets and/or (ii) having greater differences in their asset composition. The latter type of merger allows the firms to enjoy cost synergy by utilizing their joint assets efficiently. Though cost synergy leads to lower electricity prices, this pass-through effect is, on average, offset by an increase in post-merger prices.

JEL Classification: D22, D24, G34, L94
Keywords: Merger and Acquisition, Electricity Industry, Merger Waves

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