

Allocating Investments in Conglomerate Mergers: A Game Theory Approach

Abstract

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We develop a model where firms merge to form conglomerates in order to transfer technology from one industry to another. There are two markets that are not related horizontally or vertically. Each market has an oligopoly structure where the firms compete in a Cournot fashion. The model predicts that the incentives to allocate the technology are to reduce the costs in the markets with better prospects of profits and/or to raise the benefit by avoiding technology competition. Moreover, if the firms have incentives to reallocate the technology, they choose to merge. We find that the outcome on the equilibrium path is determined by the market ratio and the technology compatibility. We show that under certain conditions, when all firms merge, these mergers could result unprofitable in comparison to the pre-merger scenario.