

Report on 'On Merger Profitability and the Intensity of Rivalry',

Economics: The Open-Access, Open-Assessment E-Journal

Summary

This paper analyzes the profitability of mergers in an oligopoly model with quantity competition. Costs are assumed to be zero and the 'coefficient of cooperation' defined by Cyert and DeGroot (1973) is interpreted as the severity of competition. In particular, the payoff of a firm depends on rivals' payoffs as a way of capturing the intensity of competition. If the parameter $\lambda = 1 - n$, the profit maximization problem is the joint profit maximization. If $\lambda = 0$ the model becomes the Cournot case. Finally, if $\lambda = 1$ the result is that price is equal to the marginal cost. The author finds that for $\lambda > 0$ the incentives to merge increases with λ .

Overview

This paper extends the literature about merger profitability that tries to reverse the well-known result of Salant et al (1983), where only those mergers involving the 80% of the industry are profitable. In particular, the author focuses on quantity-setting competition and the intensity of competition captured through the coefficient of cooperation defined by Cyert and DeGroot (1973). The author finds that mergers are more likely profitable in rivalrous environments. This is counter-intuitive and it is ground on the form of the payoff of a firm. A merger is not profitable in Salant et al (1983) because firms do not internalize the impact that their output has on rivals' one. Joint maximization internalizes

the externality and industry profits are maximized. In the present paper, if $\lambda = 0$ the intensity of competition is the Cournot one. If $\lambda = 1$ the model becomes one of perfect competition. So as λ increases, competition also increases. But as λ increases, with such an interpretation, the weight of rivals' profits in the maximization problem of a firm also increases, which leads to a 'higher degree of internalization' of the negative externality and to the main result of the paper. Maybe I am wrong, but in my opinion the use of the 'coefficient of cooperation' is not appropriate for the analysis of merger profitability.

As a consequence, in my opinion, the present version of the manuscript does not reach the quality of Economics: The Open-Access, Open-Assessment E-Journal