Report on: Gains from Multinational Competition for Cross-Border Firm Acquisition
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Summary:

The model considers a local monopoly firm in the host country and two potential entrants in that market. The entrants can serve the market by exports/greenfield FDI or acquire the local firm. The focus of the paper is on competition between the entrants for acquisition of the local firm and importantly, there is regulation of foreign market entry in the form of a "consumer surplus standard". The author shows that acquisition of the local firm may emerge as an equilibrium even when this mode of entry is less profitable than exports/greenfield FDI. The entrants compete for preemptive motives and the paper shows that this improves consumer's welfare in the host country and increases overall welfare in that country since competition bids up the acquisition price.

Overall assessment:

In my view most parts of the paper are well written and the structure of the article makes it easy for the reader to follow the line of argumentation. I think in particular the result that acquisition emerges as equilibrium even though other entry modes are more profitable is interesting. However, I have also a few issues that came to my mind while reading the article, which I list below. The comments are listed without order of importance.

Comments:

1. Page 2: The statement "multinationals are expected to prefer exporting over horizontal FDI that duplicates the production process in a foreign country" does not reflect the results in the literature. For instance, Helpman et al. (2004) show that it is the productivity of firms that determines the optimal model of internationalization. And also the proximity concentration tradeoff implies that there are two opposing forces that make it a priori unclear whether firms prefer exporting or FDI.

2. On the first page of the introduction the author only refers to own work. It should be possible to relate the paper also to other papers in the literature on M&As. A better literature review would definitely clarify the exact contribution of the paper.

3. It would be good to briefly repeat what exactly is "Koska's (2016) novel interpretation of the consumer surplus standard".

4. More intuition driving the main result would help the reader. What makes it really hard for the reader is the way of presenting results in the introduction. The sentences are way too long and very hard to read. For instance: second page in the introduction, where the first paragraph is in principle one long sentence.

5. What are the new implications that we can learn from the model? Is it really important that firms are multinationals and that there is a border between the two countries? The two firms that want to acquire the monopoly firm can be domestic entrants. There is competition between acquiring firms in the IO literature so what is new in this model? This should be made clear because the author argues that competition between the firms is the novel aspect of this paper! Given the fact that there are no export costs or foreign market entry costs in the model it is really hard to see what is the international context in this framework.

6. It would be interesting to see how competition in the host country would affect the results. How important for the (welfare) results is the assumption that there is only one monopoly firm in the host country?

7. The citation of Helpman et al. (2004) on page 4 is misleading. The productivity ranking is with respect to firms in the same country while here the paper compares productivity of firms hosted in different countries.

8. I was a bit puzzled by the labeling of potential entrants as multinationals on page 4. Before acquiring the local firm they are not really multinationals, right?

9. Page 5: It is not really clear to me why there is a $\pi_l^{\,a}$ when there is no $q_l^{\,a}$.

10. Page 8. At this point it is not clear how it can be that only one multinational has decided to acquire the local firm while the other does not. At this point the reader thinks that multinationals are completely symmetric. Only later it becomes clear that multinationals differ in their ex post productivity. This should be introduced earlier. On page 9 it comes a bit ad hoc that from now on the multinationals differ in efficiency.

11. A bit more intuition what is the exact role of the minimum output requirement for the preemptive acquisition would be great. In my view this is a main result of the paper so some effort in working out the intuitive mechanisms behind that result would strengthen the paper.

12. There is probably a mistake in equation (9). It should be $s \in (m, f, a)$, right?

13. The first part of the welfare discussion seems to be not very novel. The result in Lemma 1 seems to be pretty standard.

14. If I understood correctly, there is an underlying quasi linear quadratic utility function. How is this utility function related to the welfare results?

15. In my view what would be really interesting is relaxing the assumption of homogenous goods. I think product differentiation is on the one hand a very realistic assumption and on the other hand crucial for the welfare results. Given that products are differentiated and consumers love variety, the number of varieties is available in the end is crucial for welfare results.