On the Welfare Effects of Domestic Mergers and Cross-Border Acquisitions

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Abstract

This paper uses a simple oligopoly model to examine welfare implications of domestic mergers and foreign acquisitions. It considers synergies in domestic mergers and shows that (i) an increase in foreign competition leads to "defensive mergers" between domestic firms and (ii) such mergers could improve the domestic welfare. This paper also examines a foreign firm's choice on the entry mode to the domestic market to examine which entry mode is the most beneficial for the domestic country. The foreign firm can choose exporting, acquisitions, and greenfield investment. It shows that restricting the foreign acquisition could improve the domestic welfare by inducing the foreign firm to choose greenfield investment, but such a restriction policy could reduce the welfare when the foreign firm chooses exporting to the domestic market.

Keywords: domestic mergers, cross-border acquisitions, greenfield investment, trade costs, welfare

JEL Classification: F12, L13

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