Assessing the Consequence of Horizontal Merger and its Remedies in a Dynamic Environment

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Abstract

This paper estimates a dynamic oligopoly model to assess economic consequence of a horizontal merger, which took place in 1970 to create the second-largest steel producer in the world. The paper solves for a Markov perfect Nash equilibrium of the model and simulates welfare effects of the horizontal merger. Estimates reveal that the merger enhanced production efficiency for the merging party by the magnitude of 4.1 percent, while the exercise of market power was restrained primarily by the presence of fringe competitors. Our simulation result also indicates that structural remedies endorsed by the competition authority failed to promote competition.