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THREE STAGE DYNAMIC GAME OF MERGER WITH INCOMPLETE INFORMATION ON COMPETITION COMMISSION'S TYPE

Abstract:

Horizontal mergers are of particular interest of anti-trust authorities who must distinguish between mergers that increase market power and are anti-competitive and mergers that result in significant cost savings and are not harmful to consumers.

We consider horizontal merger in an environment where competition commission might be strong or weak. Weak commissions are more likely to accept horizontal mergers due to the low level of competency and reputation while strong commissions are more likely to decline horizontal mergers. In developing countries where antitrust policy is not very sophisticated commissions are more likely to be considered as weak and with the accumulation of competence and reputation they move towards strong commissions. This model might explain the situation when international companies that operate in several countries intend to merge. These companies must submit notification to competition commissions in all countries where they operate and each national commission estimates the impact of the merger on the national market. This model might also describe the situation when companies operating dominantly in the national market intend to merge, but they don't know the commission's type since they were not dealing with the commission in the past.

We model the interaction between companies that intend to merge and competition commission in a dynamic game of incomplete information where the commission's type is unknown to merging companies at the moment when they have to decide about notification submission to competition commission. If they are unsatisfied with commission's decision, they can complain to the court who can confirm commission's decision or overturn the verdict in favour of the companies. We determine that in perfect Bayesian equilibrium decision of merging companies about notification submission depends on possible weak commission's decision and they almost completely ignore strong commission's decision. If merging companies believe that weak commission will accept the merger, they will submit notification. Otherwise, they will restrain from merger.

We also conduct an empirical analysis on the case of merger in sugar industry from Serbian regulatory practice that supports the main findings of our model.

Keywords:

Horizontal merger, Dynamic game, Perfect Bayesian equilibrium

JEL Classification: L40, L41, C73