Merger Simulation in an Open Economy

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Abstract

Since the mid-1990s, antitrust authorities and courts in the U.S and the EU use several merger simulation models to evaluate unilateral effects of horizontal mergers. Merger simulation models combine game theoretic models with some premerger market data such as demand elasticity to predict the impact of the merger on price, consumers' surplus and total welfare. However, standard merger simulation tools are developed for a closed economy and do not consider the role of exports. In an open economy or export-oriented economy, a typical manufacturing industry exhibits quite high export shares. The welfare effects of merger would be quite different between an open economy and a closed economy because of export volumes. This article provides a framework on how to incorporate the export role in a standard Cournot merger simulation model.