Abstract

This paper studies the possibility of a merger when firms have cost differences and produce vertically and horizontally differentiated products under price competition. We consider three firm setups where one firm is producing high-quality goods and others produce low-quality goods. The merger of two firms that produce different quality goods leads to two different situations. The merger between firm 1 and firm is always possible, when horizontal product differentiation is low. When horizontal product differentiation is relatively low, merger is possible only when quality difference net of cost is low. After the merger prices increases and quantity decreases for all firms. A merger between two low-quality goods-producing firm is never possible.

JEL classification: L 24, L 13, D 43, D12

Keywords: Merger; Oligopoly; Product Differentiation; Quality, Price competition