What Is Motivating Liberalization Induced-Mergers?  
The Market Power Hypothesis Reexamined

By

Guy Ben-Ishai  
The Hebrew University of Jerusalem

Abstract

This paper studies the impact of trade liberalization on horizontal merger activity. It employs industry level data to establish that merger activity increases in industries that have been subjected to trade liberalization. This finding, however, is inconsistent with prior theoretical work about endogenous mergers. A simple model of mergers and liberalization also is included to reexamine this inconsistency. The model clarifies why liberalization may actually induce horizontal mergers in contrast to what prior theoretical results suggest. Additional empirical findings also suggest that liberalization raises merger activity across the board – even in cases where no apparent relationship between the merging firms exists. This finding further questions the notion that liberalization-induced mergers are motivated by scale economies or market power considerations, as often is perceived.

Keywords: Endogenous mergers; Trade liberalization; Industry shocks; Merger waves.
JEL Classification: F13,G34, L11.

This paper is part of the "Policy Group on Mergers and Acquisitions in Israel" directed by Professor David Genesove from the Department of Economics at The Hebrew University of Jerusalem.

The Maurice Falk Institute for Economic Research in Israel  
Jerusalem, December 2005  ●  Discussion Paper No. 05.04