

Why (no) Global Competition Policy is a Tough Choice*

Abigail Tay

Department of Economics

Columbia University

New York, NY 10027

at436@columbia.edu

Gerald Willmann

Department of Economics

Universität zu Kiel

24098 Kiel, Germany

gerald@email.uni-kiel.de

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Abstract

This paper investigates merger policy in a global context. Asymmetries in the international effects of mergers bias domestic merger decisions. Extra-territorial powers of domestic agencies lead to an inefficiently restrictive merger policy on the world stage, whereas territoriality results in too lax a policy. A global authority achieves the first best; however, the gains can be unevenly distributed. Using residual demand elasticities to measure foreign and domestic market power, we estimate policy reaction functions of the US and EU competition authorities. Assuming that a global authority had a similar policy reaction function, we simulate how its decisions would differ.

Keywords: Global Competition Policy, International Mergers.

JEL Classification: F23, L4.

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