Abstract

We examine how the strategic long-run decisions, such as cost-reducing R&D investments, prior to the decision for integration, create endogenous efficiency gains that make a horizontal integration profitable. The "merger" and the "acquisition" are distinguished as different modes of horizontal integration, with respect to both incentives and equilibrium outcomes. We show that firms' incentives for integration depend on the magnitude of the cost efficiencies that R&D investments give rise to and the rule of sharing of the integrated entity's profits across participants. The welfare effects of horizontal integrations are also discussed.