The first-order approach to merger analysis

Sonia Jaffe and Glen Weyl

GePP overview

- Builds on Werden (1996); Farrell & Shapiro (various); Froeb, Tschantz, and Werden (2005)

- Generalizes UPP for a merger of A and B:

  $UPP_A = (P_B - C_B) \times D_{AB} - \quad \mathrm{C}_\mathrm{A}$

  A merger of substitutes will reduce the “cost” of price increase via recapture

  Differentiated products, Bertrand-Nash underpinning

- GePP is an improvement in that it captures economic phenomena that are omitted from UPP, GUPPI, etc.

Competition among merger review tools

- **Intuition**:

Competition among merger review tools (2)

- **<u>Post-HSR, pre-2R</u>**: Data are usually gathered too late in the process so there is little time for econometric *estimation of anything*
  - The screening period
  - UPP does not require *estimation of anything*
  - Firms often track things that are *diversion-like*
    - But often these are not based on changes in responses to price changes
    - Discount authorization forms
    - Win/Loss data; Sales force productivity tools
  - Firms rarely track things that are pass-through-like
  - Note that in some cases, estimation before 2R might be possible
    - Industries with public data and a track record of mergers
    - Hospitals (state discharge data), Air