

$$\Delta W = \Delta \pi^I + \underbrace{\Delta \pi^O + \Delta CS}_{\text{this depends only on } \Delta \Sigma^I \text{ - key insight}}$$

this depends only on $\Delta \Sigma^I$ - key insight

Using the idea of an infinitesimal merger:

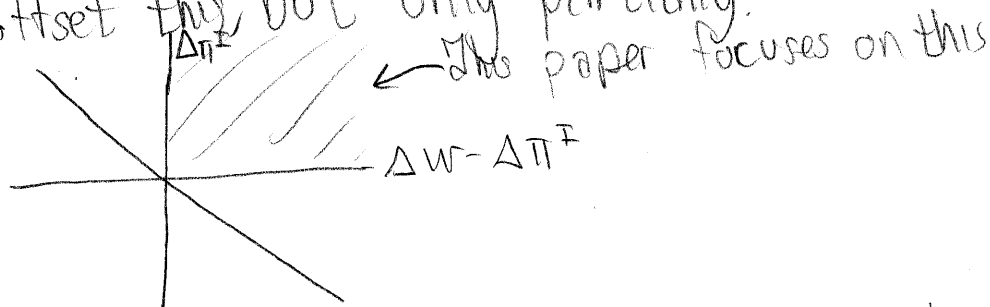
$$\Delta W - \Delta \pi^M = \int_{\Sigma^I_{\text{pre-merger}}}^{\Sigma^I_{\text{post-merger}}} (\cdot) d\Sigma^I$$

Prop 4: An infinitesimal merger is good for $CS + \pi^O$ if

$\sum_{i \in O} \lambda_i s_i > s_I$, λ_i is a measure of the responsiveness of firm i to changes in Σ^I .

◦ s_I is the pre-merger sum of market shares for the merging firms.

◦ The direction the merged entity's output moves is the direction total output moves. Outside firms offset this but only partially.



These papers don't deal seriously with dynamics and entry.

◦ Pesendorfer (RAND 2005) - Not starred, but worth looking at. (Mergers under entry)