How Structural Merger Remedies Should be Implemented

Christian Steiner
WHU Otto Beisheim School of Management - Chair of Microeconomics and Industrial Organization

and

Professor Dr. Jürgen Weigand
WHU Otto Beisheim School of Management - Chair of Microeconomics and Industrial Organization

August 2006

Abstract:
Double moral hazard problems are prevalent in merger remedies. We consider a holdup problem in which two merging parties forced to sell an asset to a potential buyer, both engage in relationship-specific investments sequentially in order to prepare for an asset transfer. We show that an option contract on asset ownership implements first-best investments. The merging parties own the asset initially, while the buyer has the option to buy it later at a set price. Since the merger decision depends on the success of the transaction, the Competition Authority will clear the merger whenever the option was exercised.

Keywords: Contract theory, contingent ownership, merger remedies, efficient restructuring

JEL Classifications: G32, G34, G38, L11, L14, L23