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Merger Activity in Industry Equilibrium*

Theodosios Dimopoulos† **Stefano Sacchetto**††

Abstract

We quantify the impact of merger activity on productive efficiency. We develop and calibrate a dynamic industry-equilibrium model that features mergers, entry, and exit by heterogeneous firms. Mergers affect productivity directly through realized synergies, and indirectly through firms' incentives to enter or exit the industry. Merger activity increases average firm productivity by 4.8%, of which 4.1% reflects the accumulation of synergies, and 0.7% the interaction between merger options and firms' entry and exit decisions. We show that ignoring the implications of merger activity for public policies that promote entry can reverse the expected impact of these policies on productivity.

JEL Classifications: D21, D92, E22, E32, G34

Keywords: Mergers, Entry, Exit, Industry Equilibrium

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