Innovation and Competition Policy

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ABSTRACT

It has become increasingly apparent to policymakers that optimal antitrust policy requires looking beyond traditional static analyses and considering the dynamic effects of policy. Such analysis is challenging as limited studies exist concerning dynamic competition policy. This paper attempts to bridge this knowledge gap by developing a novel structural growth model containing the major motivation of mergers and acquisitions (M&A) activity. To enable estimation of the model, frontier natural language processing (NLP) techniques are employed to classify whether parties to an M&A transaction are currently operating in similar markets or whether acquirers are using M&A as an entry mechanism into to new markets. Examining the overall impact of M&A on growth reveals a double-edged sword: policies that either completely shut down M&A or allow unrestricted M&A both result in significantly lower growth rates than the baseline estimate. This motivates an optimal antitrust policy that accounts for dynamic effects.

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