

Mergers and Investments in the Wireless Industry ^{*}

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Abstract

This paper studies the consequences of potential T-Mobile/Sprint and AT&T/T-Mobile mergers in the U.S. wireless telecommunication industry. I propose a model in which consumers trade off money and network coverage, so firms have to compete on both price and investment. The key result is that a merger between T-Mobile and Sprint would benefit consumers by widening network coverage of the joint venture, and would lead to less duplication on the investment side thus also increasing profits and creating more competitive pressure in the industry. An acquisition of T-Mobile by AT&T, on the other hand, harms consumers and does not result in better coverage. Additionally, the consequences of the T-Mobile/Sprint merger are heterogeneous over geographic areas. Markets with high population density or low costs of investment typically experience lower or negative changes in consumer surplus as a result of the merger because of a strong initial presence of Sprint or T-Mobile. In contrast, markets where the merging parties struggle to enter separately, mainly those with lower population density and harder to cover landscape configurations, benefit more as the consumers would face more carrier choices in case of merger.

KEYWORDS: Merger analysis, wireless telecommunications, dynamic investment.

JEL CLASSIFICATION: L13, O33, L96, L51.

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