# Vertical Foreclosure: A Dynamic Perspective

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# Overview

- Great, timely paper: theories of harm regarding GAFAM are becoming more conglomerate and complex in nature, and include dynamic foreclosure stories.
- This paper builds upon a seminal paper on endogenous mergers: the Ordover, Saloner, Salop (1990) paper.
- The main contribution is: OSS is extended with a second period. This allows for dynamic foreclosure theories.
- A motivating recent merger case is the attempted acquisition by Illumina of the company GRAIL.

# Model

- **Upstream market:** Two producers of a homogeneous input (firms 1 and 2) have zero cost and compete in prices.
- **Downstream market:** Two downstream firms (firms A and B) compete with differentiated products.
- **Timing:** First, firms A and 1 can merge. Second, they commit to an input price. Third, firms B and 2 can decide whether to counter-merge. Third, B sets its input price. Fourth, downstream firms compete on price.

# Main results & intuition (1/2)

- With intertemporal linkages, there is **fiercer** competition in period 1 (to gain an advantage in period 2).
- Therefore, if A-1 merge, **supplier 2 offers lower prices** to firm B than without intertemporal linkages (because supplier 2 wants its customer to have high sales in period 2).
- In other words, the extent of raising rival's costs is **less severe** with intertemporal linkages.
- (Nonetheless, A-1 still gains a larger market share through the merger.)

# Main results & intuition (2/2)

- The **possibility of a counter-merger** leads firm **A-1 to offer a (relatively) low** input price to firm B.
- The same is true with intertemporal linkages.
- The more important the intertemporal linkage, the fiercer the competition in period 1, and the lower RRC. In the limit, firm A-1 and firm 2 offer the input at cost to downstream firm B.

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   - What is structure of the industry in that attempted merger case?
   - How are prices formed in that industry? Do suppliers set prices, is there bargaining, or some other way?
   - What industry specificities does the model not capture?

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3. What about other cases of possible interest, e.g. cases that involve GAFAM?

4. Is the linear functional form of demand necessary? (OSS is significantly more general.)