Start-up Acquisitions and the Entrant's and Incumbent's Innovation Portfolios

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Summary

- What are the effects of start-up acquisitions on innovation and welfare?
- Entrant and incumbent each have a private market, while competing in a rival market.
- 3 (or 4) stage game:
    1. Investment decision by entrant
    2. Investment decision by incumbent
    3. (potential acquisition)
    4. competition in rival market
- Outcomes with and without acquisitions

Important points

- The impact of acquisitions on the direction of research and consumer welfare depends on model parameters
- Acquisitions are welfare increasing, if they reduce duplication of innovative efforts, e.g.
  - incumbent invests less in rival market, because it will acquire later
  - entrant invests more in rival market, because it expects to be acquired
- Looking only at the focal market neglects the impact on non-rival markets

Comments

- When acquisitions are allowed, they always occur - is there a way to endogenize this decision, e.g. based on profit differences?
- Both research budgets are normalized to 1
- Timing of the game - is it really the entrant that moves first?
    - Entrants seem to be picking their entry points based on incumbents
    - Incumbents defend their core business areas
- How to identify markets, for which $2\pi_{hh} < \pi_{hl} + \pi_{lh}$ holds?