Supply Chains, Takeovers, and Market Power

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Rising market power can threaten competition and business dynamism, resulting in lower levels of welfare. To date, while much of the empirical work relies on US data, there is scant evidence about the evolution of markups in Europe and the channels through which markups can change. Considering that the number of takeover activities in Europe has steadily increased over time, this study investigates the role of firms' acquisitions as a driver of change in markups, market shares, productivity and profitability. Interestingly, our results suggest that takeovers aimed at vertical integration strategies result in lower levels of markups of about 2.75%. On the other hand, we do not find significant changes in the case of horizontal integrations after controlling for reverse causality. Thus, in line with the US Vertical Merger Guidelines of 2020, we emphasize the pro-competitive effects deriving from vertical integrations that stem from eliminating frictions on the inputs markets after reducing double marginalization in the presence of market power.