**Mergers and Product Quality**

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**Abstract:**

There is a well-known theoretical possibility that a horizontal merger can increase the equilibrium quality of the merging firms’ products.

Previous research has identified conditions under which this can occur.

However, these conditions are not easy to interpret intuitively or to implement empirically, so it remains unclear whether this possibility is merely a theoretical curiosity or whether it is likely to occur in the real world.

In this paper, I identify intuitive conditions under which a merger can increase equilibrium quality.

In a stylized bargaining model, the sign of the effect of a merger on the merging firms’ quality depends entirely on whether the quality of the good (not the good itself) is a normal, neutral, or inferior good.

If quality is normal, then mergers reduce quality, and vice-versa.

That is, mergers reduce quality unless buyers value quality more when their incomes are reduced.

In a model in which firms unilaterally choose prices and qualities, and in which demand is linear and symmetric, mergers reduce equilibrium quality unless the diversion ratio with respect to price exceeds the diversion ratio with respect to quality by an amount that is bounded away from zero.