

Abstract :

We construct a price-theoretic model of firm boundary decisions under perfect competition and study their interplay with product demand, technology, and welfare. Integration is costly to implement but is effective at coordinating production decisions. The price of output influences the ownership structure chosen: in the simplest case, the degree of integration increases in price. Ownership in turn affects output: integration is more productive than non-integration. If the managers deciding organizational design have full claim to enterprise revenues, market equilibrium ownership choices will be second-best efficient. When managers have less than a full claim on profits, total welfare may sometimes be increased by a social planner who could force some producers to reorganize. The price mechanism tends to correlate reorganizations across firms and generates external effects of technological shocks: productivity changes in some firms may induce changes of ownership in the rest of the industry. The model can generate robust coexistence of different ownership structures among ex-ante identical firms. We illustrate with recent empirical examples from the literature the role of endogenous and exogenous heterogeneity.

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Patrick Legros holds a doctorate from France (1985) and a PhD from the California Institute of Technology (1989). For his dissertation work he was selected to be a participant in the first Review of Economic Studies Tour. He is professor of economics at Université Libre de Bruxelles where he teaches economics, in particular industrial organization and antitrust and contract theory. He was assistant professor at Cornell University and has been visiting professor of economics at different universities, including the Massachusetts Institute of Technology and Boston University. He was director of research at the Institut d'Etudes Européennes (2001-2008) and is a co-director of ECARES since 2009. He is an editor of the Journal of Industrial Economics, a member of the Oxera Scientific Council and a fellow of C.E.P.R."



The Center for Research in Economic Analysis of the University of Luxembourg is pleased to invite you to the **Lunchtime Seminar in Economics:**

A Price Theory of Vertical and Lateral Integration

joint with Andrew Newman

Patrick Legros

Université Libre de Bruxelles

November 24, 2010

13:00 – 14:00

Campus Limpertsberg
Building of Science – Room BS001
162a, avenue de la Faïencerie
L-1511 Luxembourg

Lunch is planned for the participants

Registration: by email to fdef-colloques@uni.lu

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