Application of the vGUPPI Method to the Assessment of Vertical Integration: Empirical Analysis

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Abstract

While business mergers could improve operating efficiency, such mergers are likely to give rise to market power and anti-competitive effects. Different types of business combinations known as mergers have different ways of affecting market competition. This study provides an empirical analysis of vertical integration. We systematically review the domestic and foreign literature, and focus on foreign cases involving vertical integration. The vGUPPI model of Moresi & Salop (2013) is utilized in the case analysis. Moresi & Salop (2013) proposed the vGUPPI price index under the vertical concept in order to measure the effect of market foreclosure and the incentives for upstream and downstream manufacturers to increase prices. The vGUPPI index can be used to determine a preliminary estimate of the degree of antitrust as a result of vertical integration. According to the case analysis, upstream manufacturers and competitors are likely to have an incentive to increase prices, but the incentive effects are not obvious. Downstream manufacturers have less incentive to raise prices. Take the AT&T and Time Warner case as an example. If the downstream manufacturers were to combine their operations, this would increase the added value of the product, and then the higher the added value of the product, the lower the cost-price ratio of the manufacturer (under the assumption of a

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linear relationship) would be. That would result in a gradual decrease in incentives for competitors to raise prices, and a gradually weakening incentive for downstream integrated manufacturers to raise their prices.

Keywords: Vertical Integration, Anti-Competition, vGUPPI, Cost to Selling Price Ratio, Cost Pass-Through Rate.