

VERTICAL VS HORIZONTAL INTEGRATION:
PRE-EMPTIVE MERGING: A CORRECTION

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Eric Avenel has pointed out to me that my proposition 1 (Colangelo [1995, p. 329]) holds only if goods are not very close complements ($\gamma > -0.85$). In fact, if goods are very close complements, both bidders prefer to see their rival integrating rather than integrating themselves, and both prefer the situation with an integration in which they are not involved to no integration at all. It is possible to check that for $\gamma \leq -0.85$, $\pi_{U,m} > \pi^v > \pi_U$ and $\pi_{D,v} > \pi_D^m > \pi_D$. Hence there are two equilibria: one in which the upstream bidder bids a strictly positive ε while the downstream bidder bids zero (vertical integration takes place); the other in which the upstream bidder bids zero while the downstream bidder bids a strictly positive ε (horizontal integration takes place). Both types of integration are thus possible for $\gamma \leq -0.85$.

The essence of the conclusions reached in the paper remains unchanged.

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REFERENCE

Colangelo, G., 1995, 'Vertical vs. Horizontal Integration: Pre-emptive Merging, 1995, *Journal of Industrial Economics*, Vol. XLIII, pp. 323–337.