

Ownership and Control in Differentiated Product Markets*

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Abstract

We study a differentiated product market in which an investor owns a controlling stake in one of two competitors. We characterize her decision to invest in a stake in the other competitor, or to initiate a cross ownership arrangement, and analyze the dependence of the equilibrium allocation of ownership and control rights on the initial ownership structure in the economy. We find that both partial and full acquisitions may occur. In some cases, cross ownership arrangements between firms are important, whereas in others they are dominated by a direct investment of investors.

JEL Classification: L13, L24, L41.

Keywords: Differentiated products, separation of ownership and control, private benefits of control, cross holding.

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