Accepted Manuscript

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PII: S0022-1996(18)30023-0
DOI: doi:10.1016/j.jinteco.2018.02.005
Reference: INEC 3121

To appear in: Journal of International Economics

Received date: 9 November 2016
Revised date: 22 February 2018
Accepted date: 22 February 2018

Please cite this article as: Stiebale, Joel, Vencappa, Dev, Acquisitions, Markups, Efficiency, and Product Quality: Evidence from India, Journal of International Economics (2018), doi:10.1016/j.jinteco.2018.02.005

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Acquisitions, Markups, Efficiency, and Product Quality: Evidence from India

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February 2018

Abstract

This paper uses a rich panel data set of Indian manufacturing firms to analyze the effects of domestic and international acquisitions on various outcomes at target firm and product level. We apply recent methodological advances in the estimation of production functions together with information on prices and quantities to estimate physical productivity, markups, marginal costs and proxies for product quality. Using a propensity score reweighting estimator, we find that acquisitions are associated with increases in quantities and markups and lower marginal costs on average. These changes are most pronounced if acquirers are located in technologically advanced countries. We also provide evidence that the quality of products increases while quality-adjusted prices fall upon acquisitions. Our results indicate that knowledge transfer from foreign acquirers to domestic firms, predicted by theories of multinational firms, can materialize in both cost- and quality-based gains and benefit both firms and consumers.

JEL codes: F61, F23, G34, L25, D22, D24

Keywords: Foreign Ownership, Mergers and Acquisitions, Multi-Product Firms, Productivity, Markups, Product Quality

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