My dissertation consists of three essays which focus on the merger decisions made by firms. The dissertation focuses on both horizontal mergers and vertical mergers. The first essay shows how the incentives of a firm, whose product must be supported by other products, can change when it buys out a competitor that produces substitute products. The model suggests a reduction in the firm’s product variety when the merger is justified by cost reduction. The second essay analyzes the merger decision of a firm in markets in which complementarities exists for different alternatives the firm has. The paper identifies the conditions under which different types of mergers occur as well as no merger occur. The third essay explains that the merging parties can achieve the desired organizational outcome whenever it is possible to introduce incomplete contracts.

**Essay 1: Mergers and Their Effects on Cost, Welfare and Products**

This essay is concerned with the effects of a merger of two substitute good producers on prices and consumer welfare. The paper answers whether the merger will lead to a price decrease or not in the market when the cost of production is less after the merger. I find that the price will be higher post merger whenever each firm is producing a base product which is differentiated by the number of other products compatible with it. Moreover, the paper proposes a theory which gives the conditions that the merger can lead to a decrease in the variety of compatible products in the market when an entry to the market is not possible. Moreover, the paper shows that whenever there is an entry threat in the market, the merged firm increases its product variety. The possibility of a new firm in the market increases the consumer welfare.

**Essay 2: Growth Decision of a Firm via Mergers in Complementary Markets**

This essay examines the merger decision of a firm in a setting that the firm must commit to compatibility contract with a complementary good producer and the complementary good producers decide on firm specific R&D investment. I identify the conditions under which firms integrate. Although the integrated firm has less incentive to supply for its rival, the rival firm may agree to a compatibility contract with the integrated firm in order to reduce the effect of variety competition with the integrated rival. As a result, underinvestment occurs. The analysis shows that the likelihood of vertical integration to occur increases as complementary producers' efficiency difference increases. However, the likelihood may or may not increase with the degree of variety competition in the market. Moreover, I present the conditions that the substitute good producers can merge and vertical integration can be forgone. I also show that all firms may also decide to remain independent because of the potential costs of any merger decision. I also identify the conditions under which any kind of merger can fail to occur.
Essay 3: Management, Organization and Mergers

Many cases of mergers and acquisitions provide some evidence that the act usually results in failure rather than success. Post merger, the newly formed organization may fail to generate adequate benefits due to the differences in corporate cultures, marketing strategies and regions they serve. When a merger can be seen as an investment, the interesting question to answer will be: Is it possible to achieve a successful merger for sure? The hold-up problem can arise when the firms try to accommodate post merger and overcome the firms’ differences to achieve synergy. This paper proposes a model which introduces incomplete contracts between merging parties in an environment where the firms pursue strategic substitute or strategic complement actions. The model concludes that firm can achieve efficient outcomes when their organizational goals are not only strategic substitutes but also strategic complements by introducing incomplete contracts.