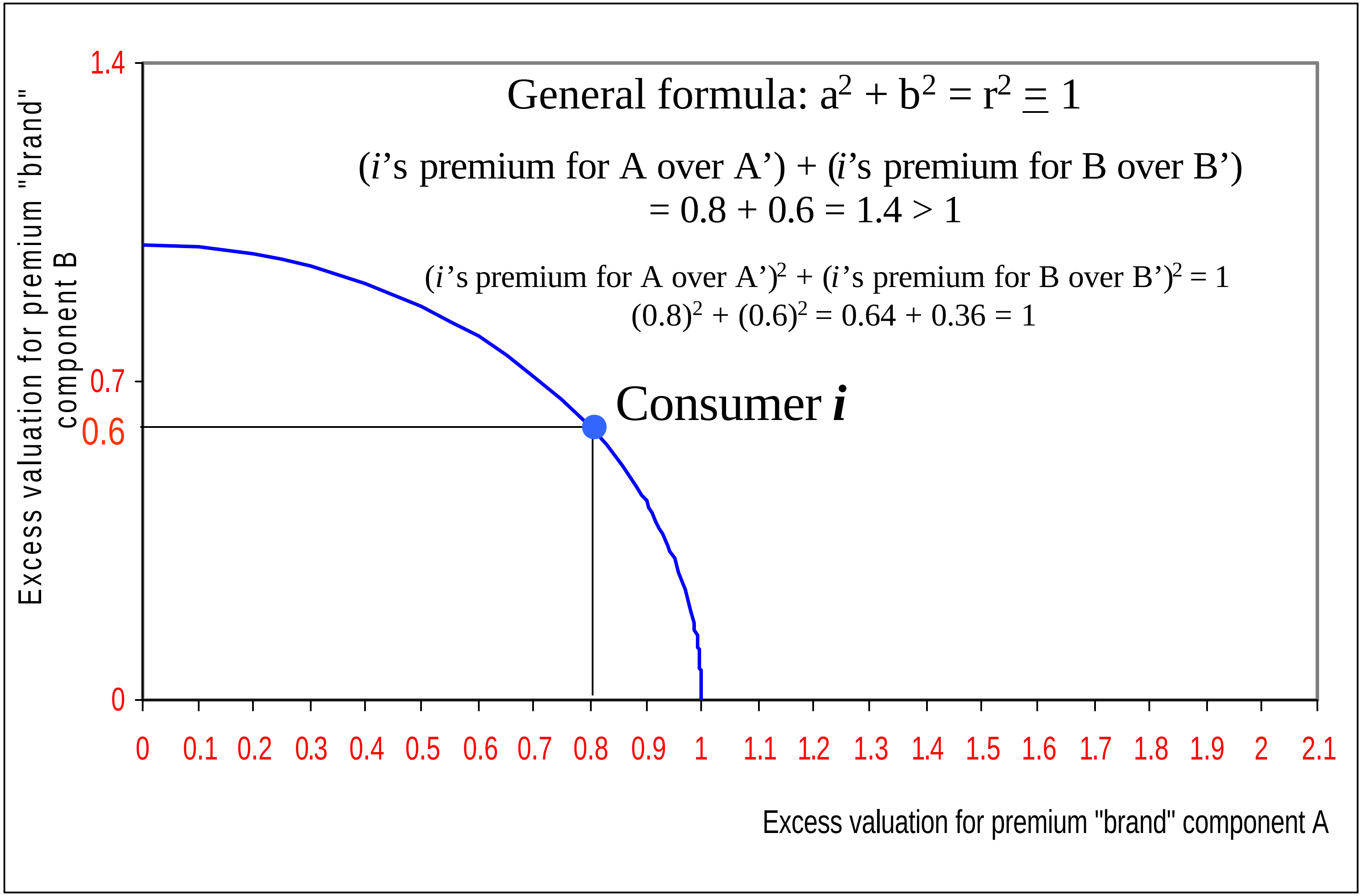
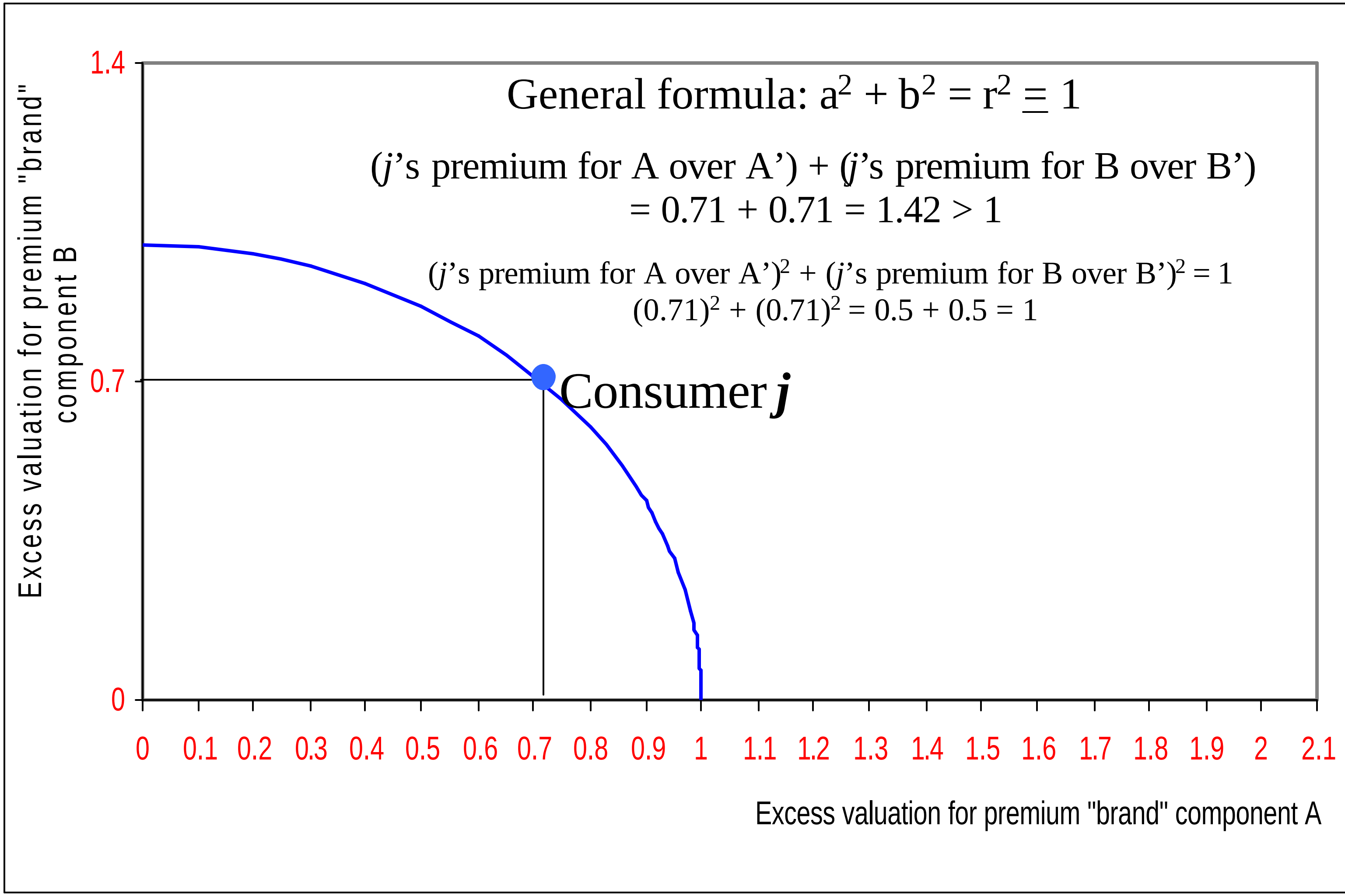
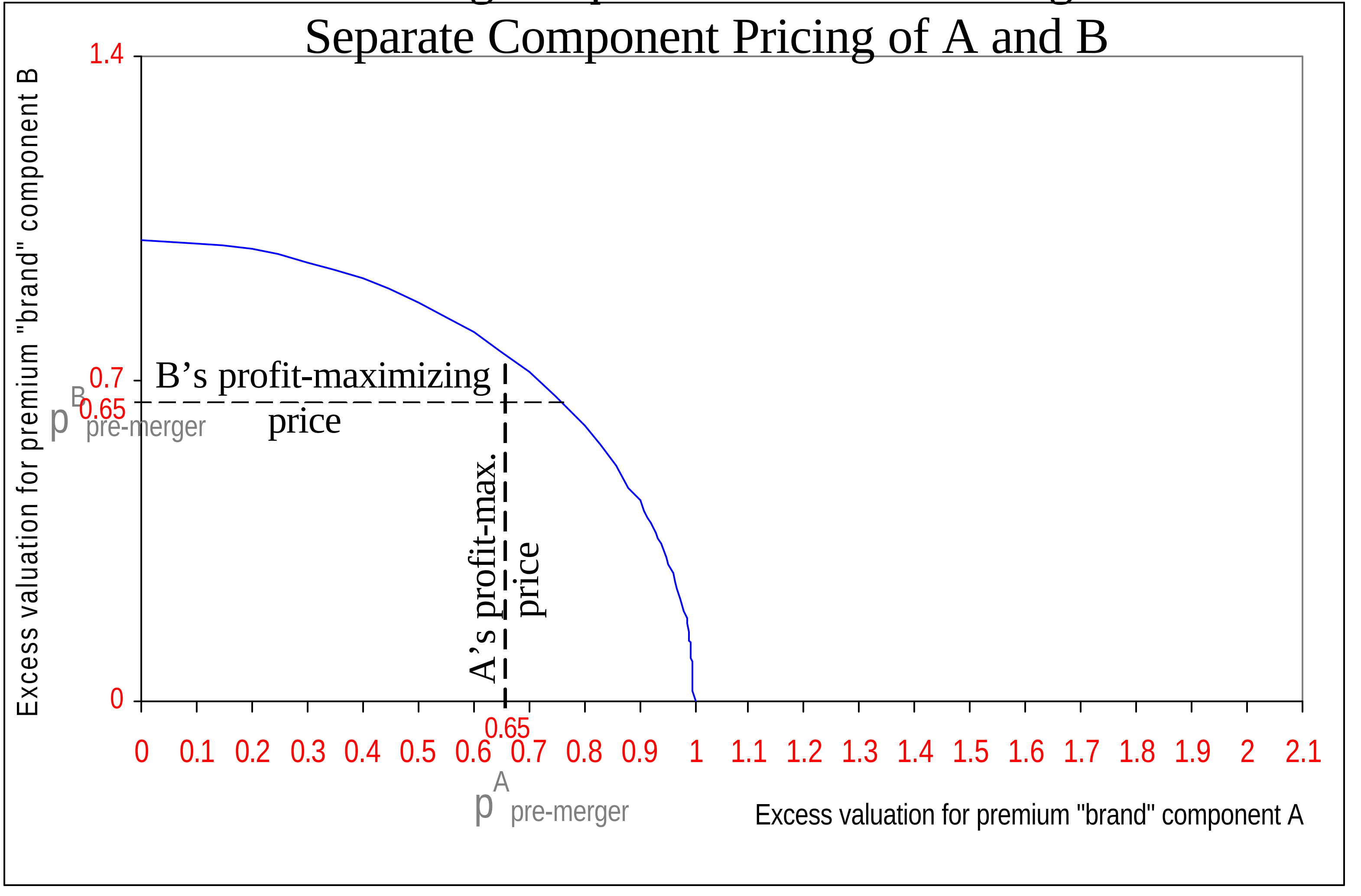
# Consumers Located on the Unit Circle



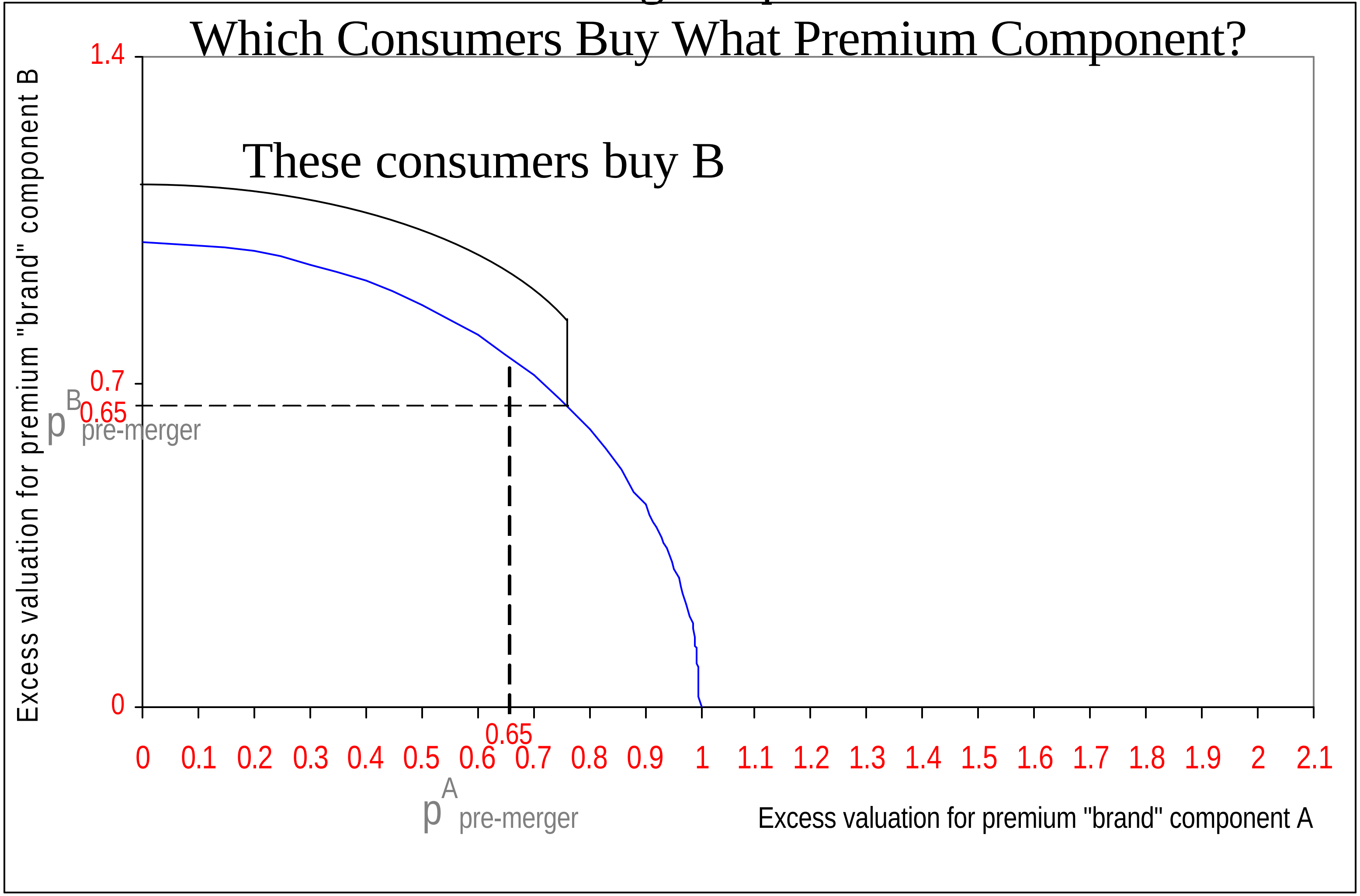
# Consumers Located on the Unit Circle

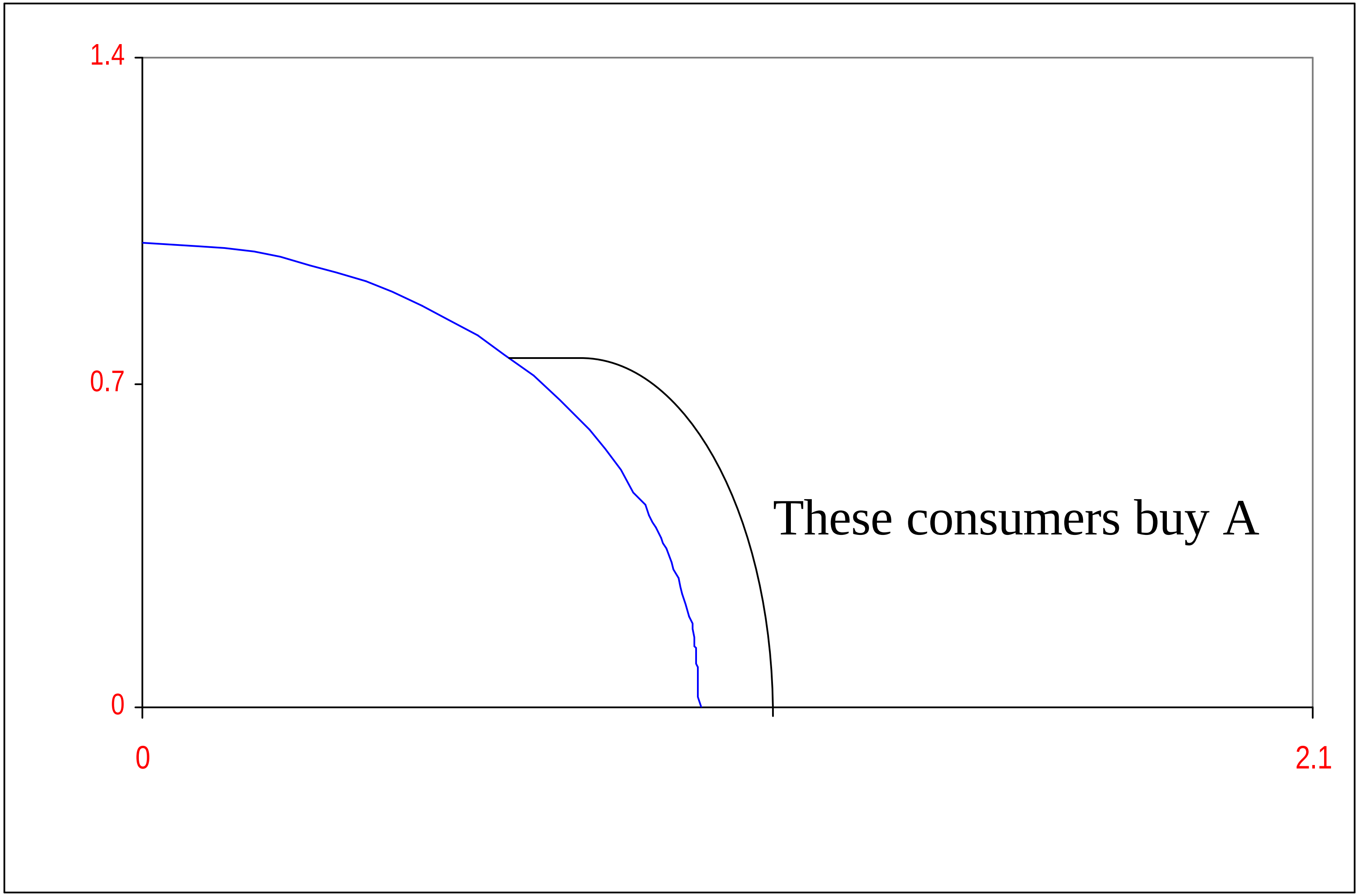


# Pre-Merger Equilibrium: No Bundling
# Separate Component Pricing of A and B



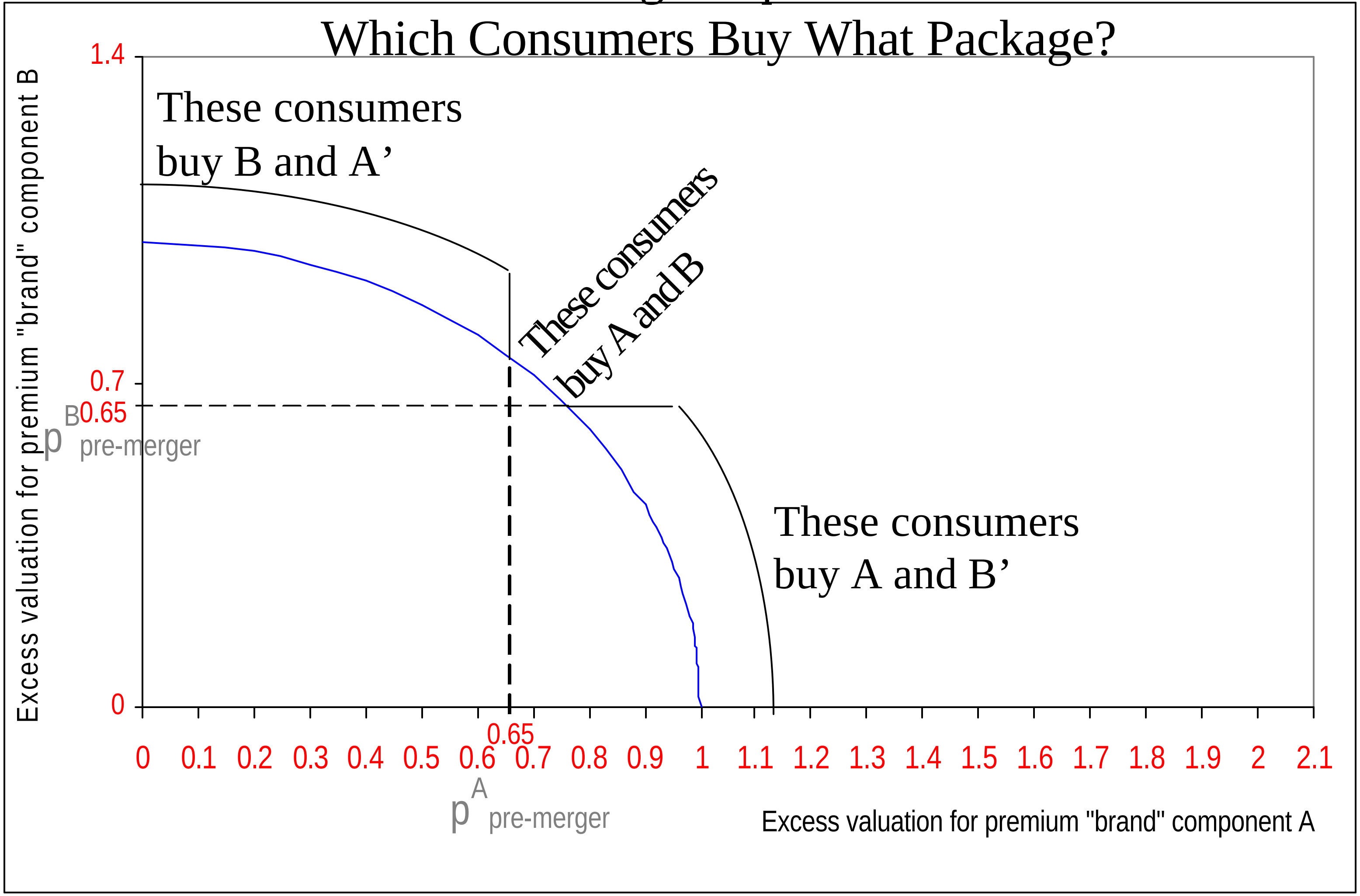
# Pre-Merger Equilibrium

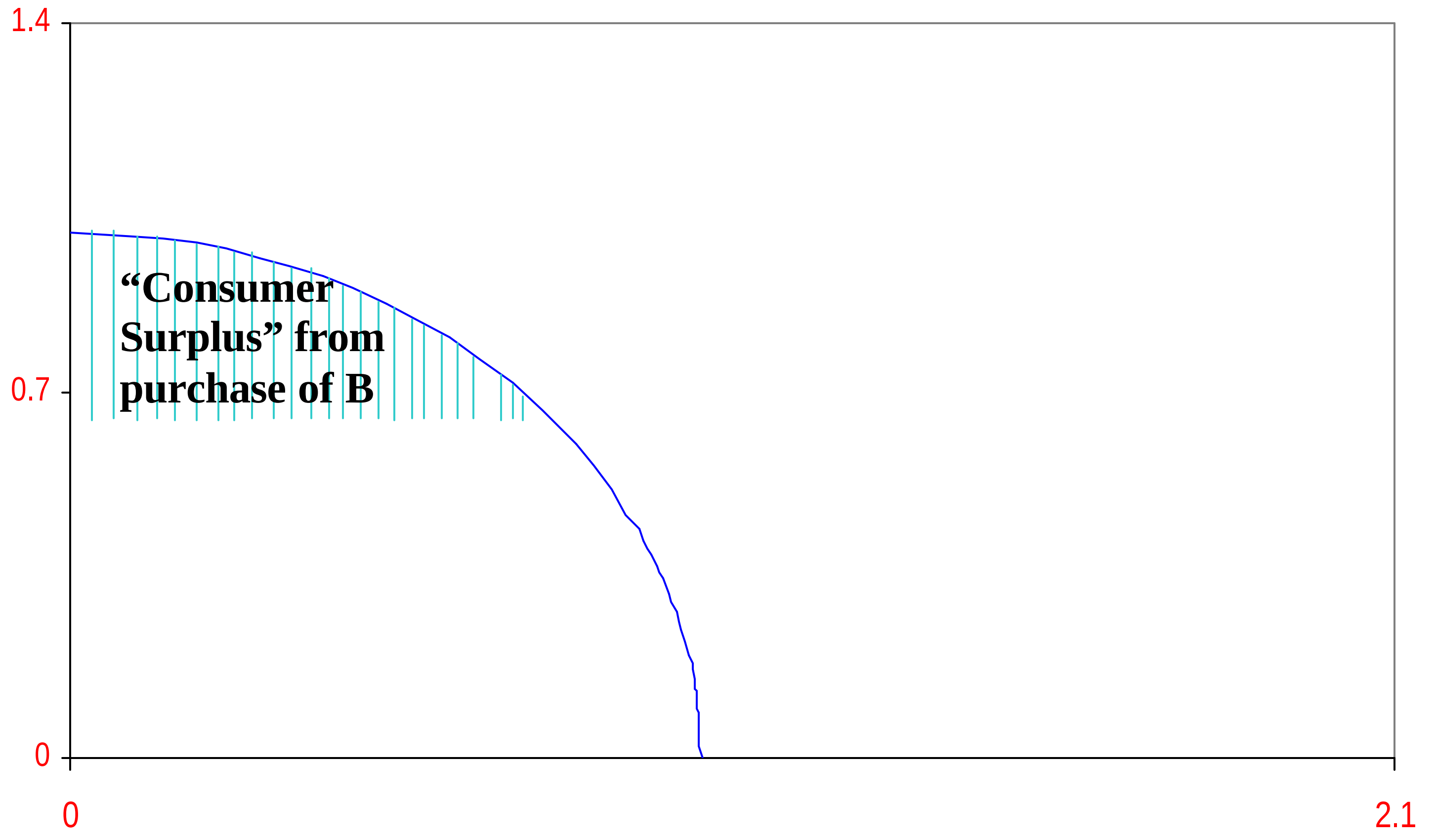


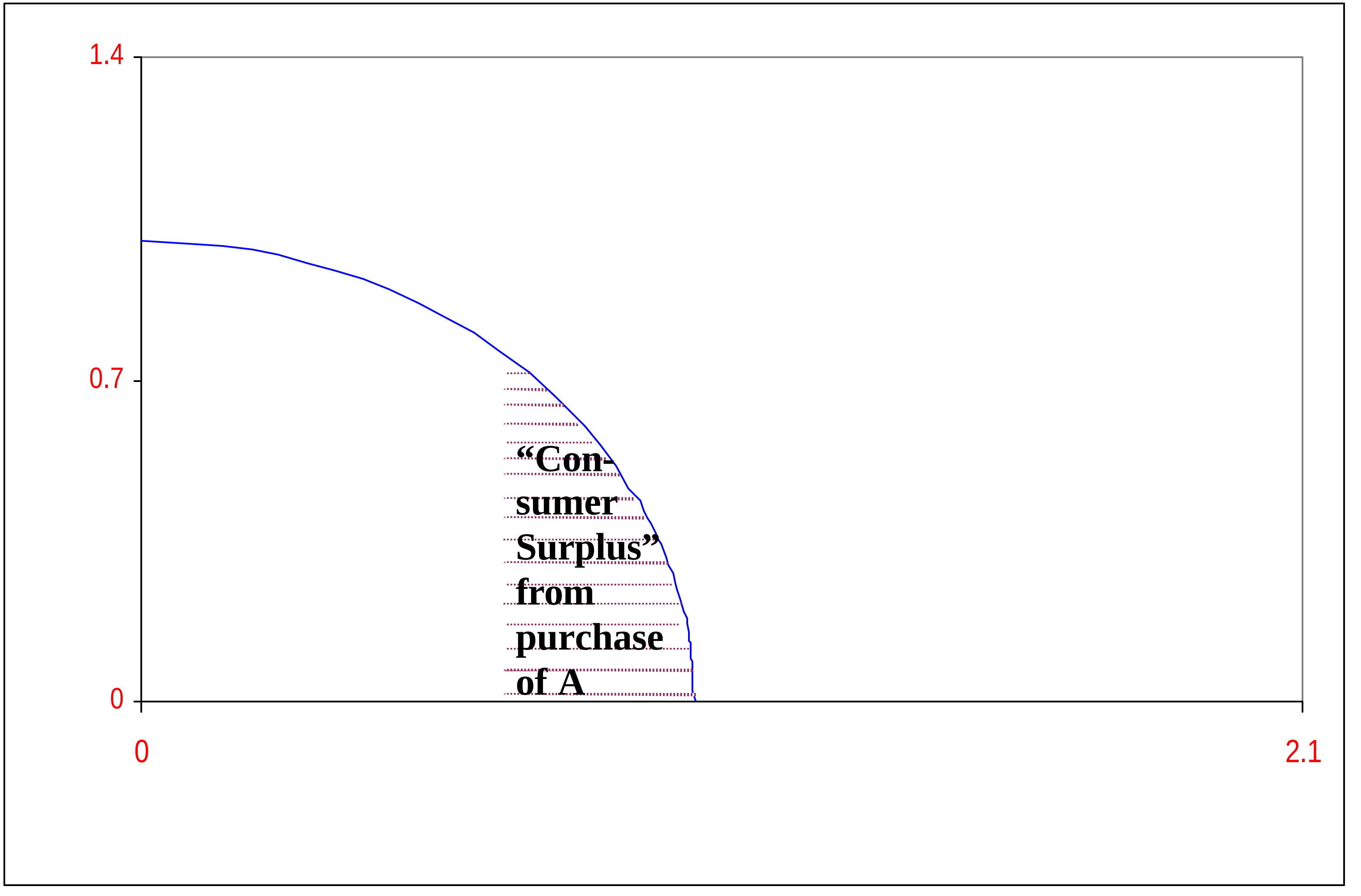

1.4
0.7
0
0
2.1
These consumers buy A

# Pre-Merger Equilibrium

## Which Consumers Buy What Package?



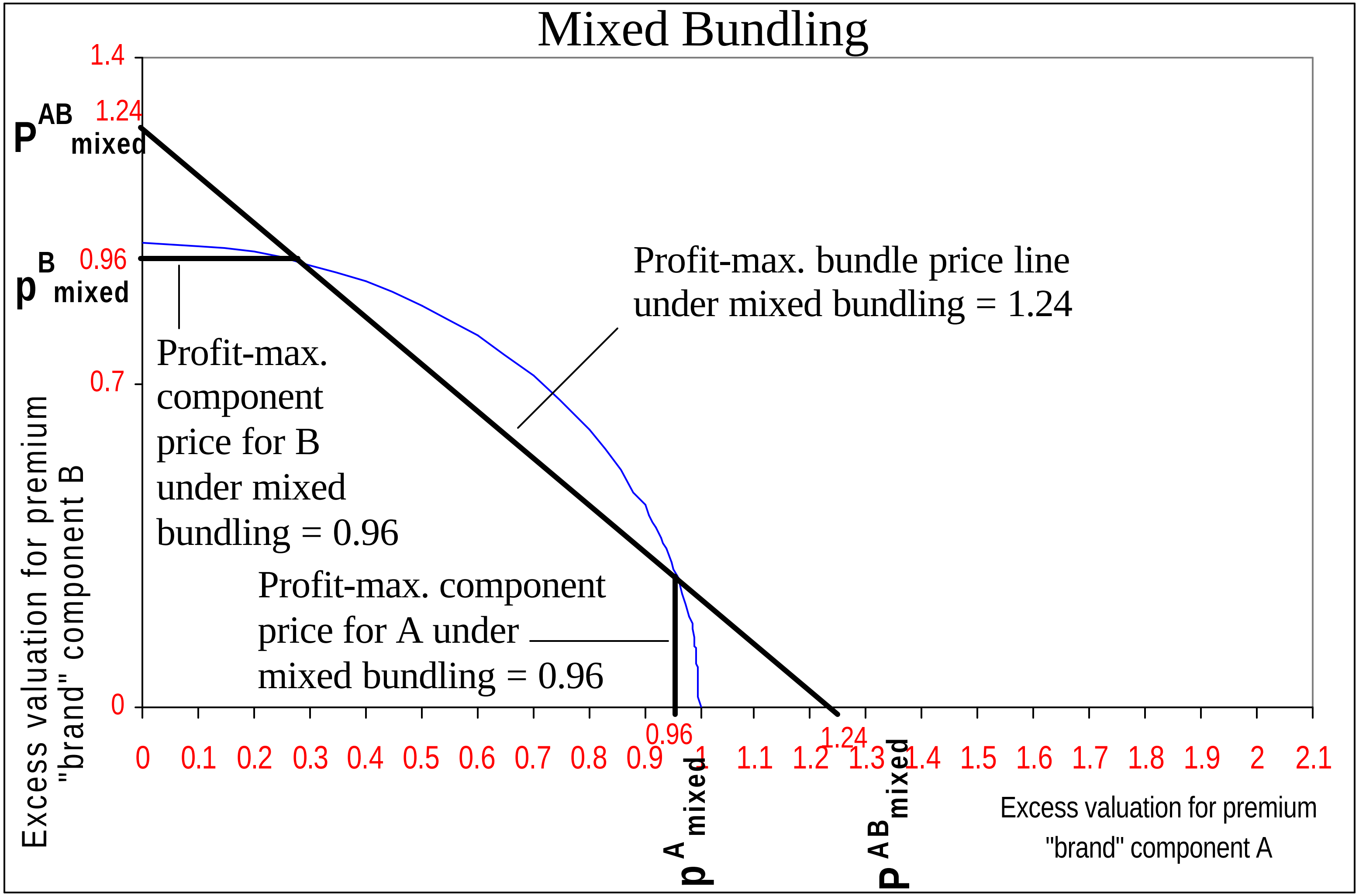

1.4
0.7
0
0
2.1
"Consumer Surplus" from purchase of B


1.4
0.7
0
0
2.1
“Con-
sumer
Surplus”
from
purchase
of A

# Pre-Merger Package Prices

| System | Price |
|---|---|
| A B | 1.30 |
| A’ B | 0.65 |
| A B’ | 0.65 |

# Post-Merger Equilibrium
# Mixed Bundling

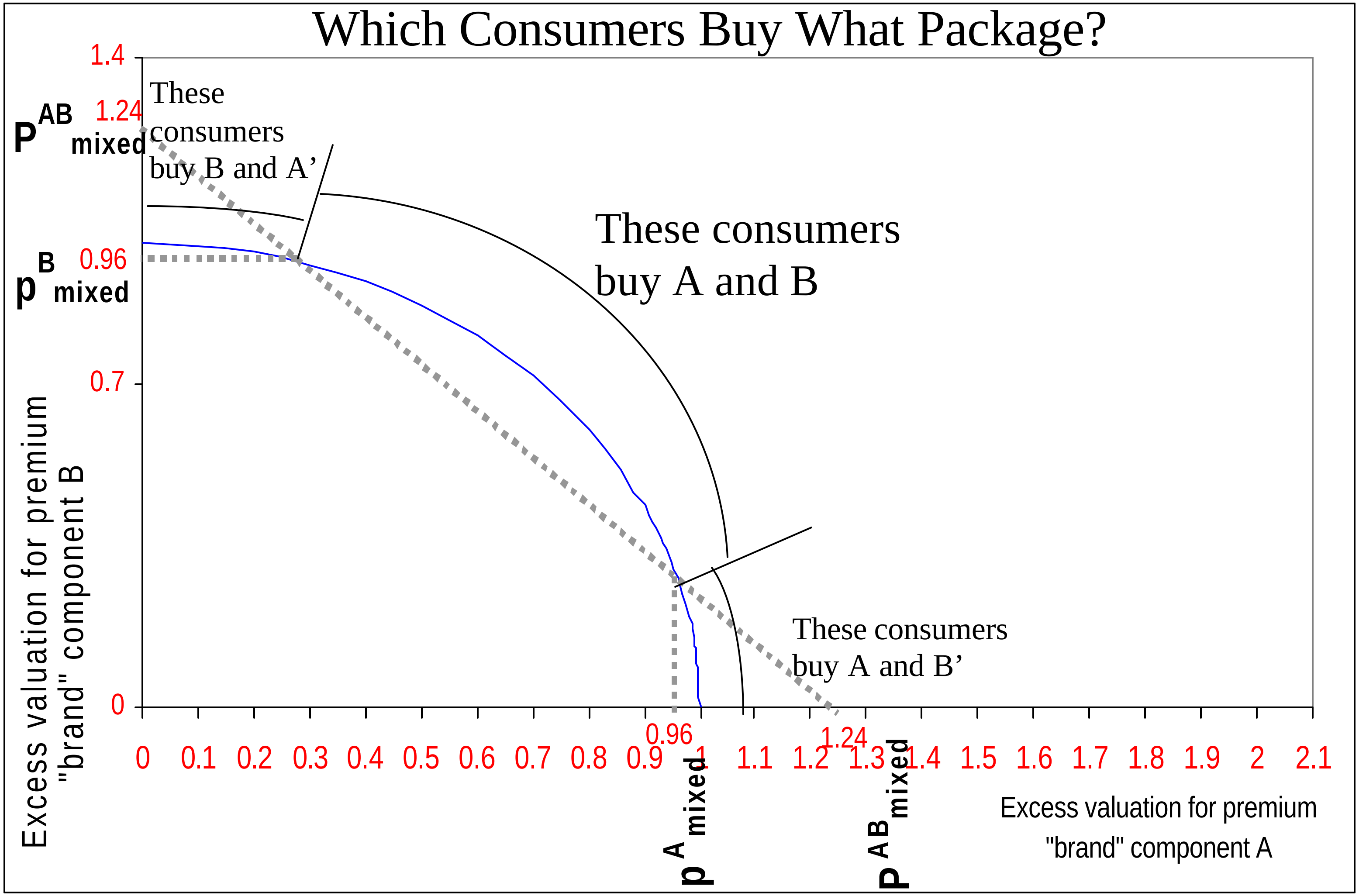


# Package Prices

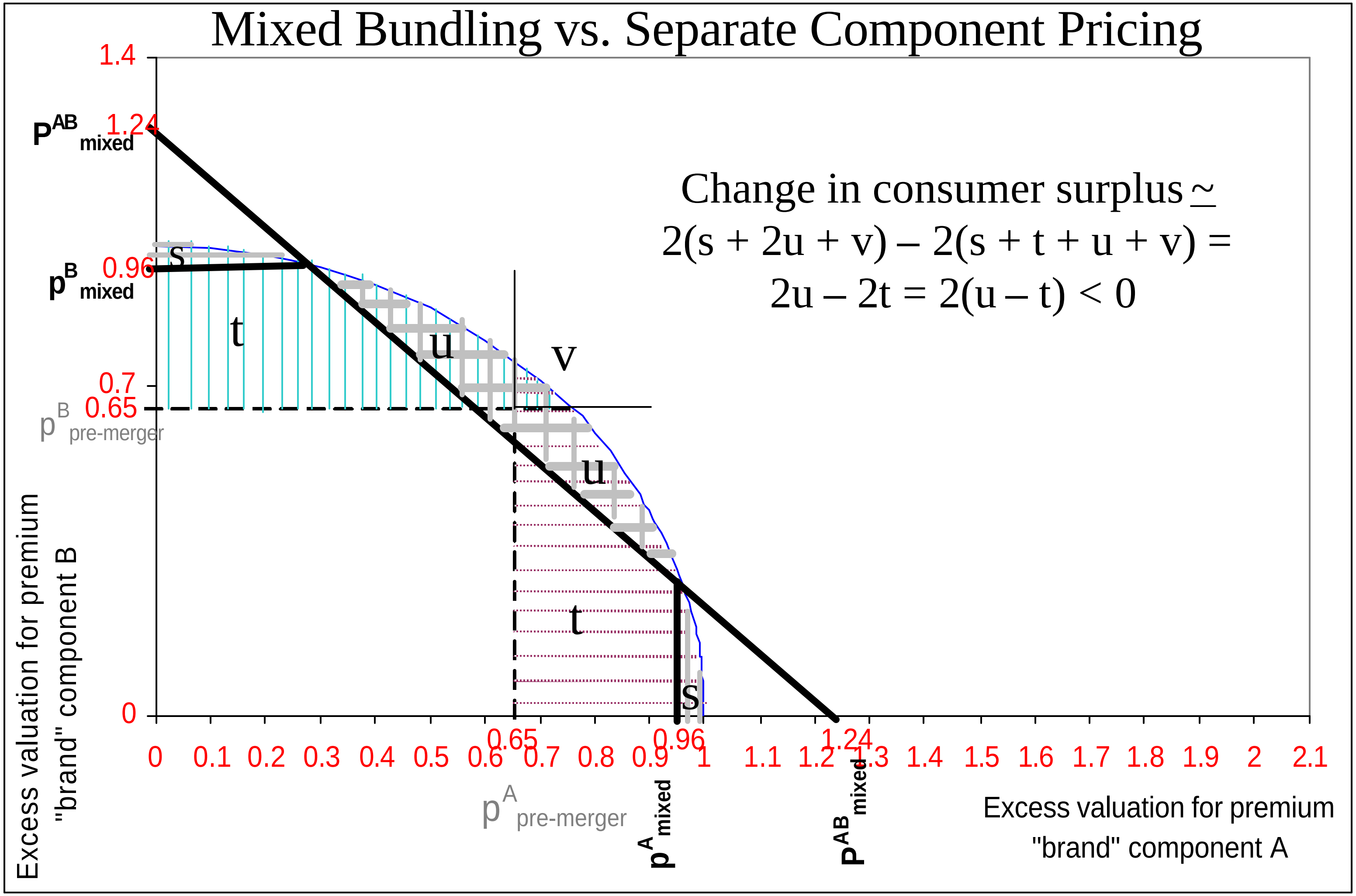
## Separate Component Pricing vs. Mixed Bundling

| | Price | |
|---|---|---|
| System | Pre-merger | Post-merger |
| A B | 1.30 | 1.24 |
| A’ B | 0.65 | 0.96 |
| A B’ | 0.65 | 0.96 |

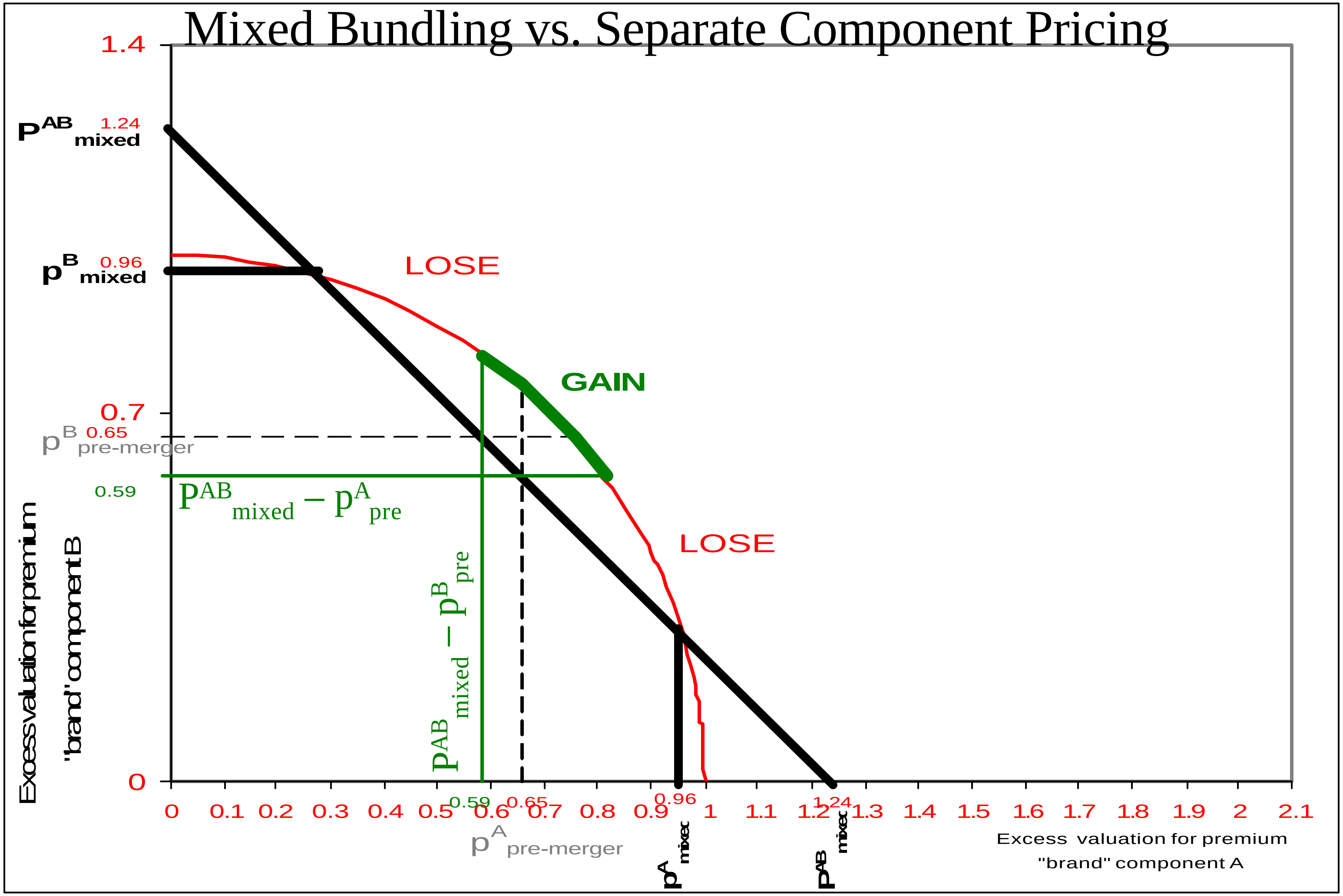
# Post-Merger Equilibrium



# Effect of A and B Merger on Consumer Welfare
## Mixed Bundling vs. Separate Component Pricing



# Which Consumers Gain, Which Lose, From the Merger of A and B



## Winners

- Integrating firms' profits increase 60%.
- Consumers who purchase the *high quality system before and after* the merger benefit from a lower bundle price.
- A minority of consumers who purchase a *mixed system pre-merger and the high quality bundle post-merger* benefit from a lower implicit component price.

## Losers

- Low quality producers' market shares decline substantially.
- Consumers who purchase a *mixed system both before and after* the merger suffer from higher component prices.
- The majority of consumers who purchase a *mixed system pre-merger and the high quality bundle post-merger* suffer from a higher the implicit component price.

# Asymmetric Consumer Preferences for Premium Brands A and B