DESIGNING EFFICIENT MECHANISMS FOR MERGERS & ACQUISITIONS AND STUDYING IMPACTS OF SUCH EVENTS ON STOCK PRICES

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Mechanism Design studies solution concepts for a class of private information games. Such class of games is usually solved by a mechanism which motivates each agent to disclose their true information while at the same time punishes the liar.

Economic transactions take place in markets, within firms and under a host of other institutional arrangements. Some markets are free of government intervention while some are under controlled by government. Mechanism design theory provides a coherent framework for analyzing this great variety of institutions, or “allocation mechanisms”, with a focus on the problems associated with incentives and private information.

My work focuses on modeling a particular economic game situation — the negotiation of Merger and Acquisition among firms, and then applying mechanism design theory on it so as to achieve a particular economic goal — maximizing Social Surplus. Several important propositions were obtained, and we choose to test these propositions in Information-based Industries by Event Study Methodology. Supportive empirical results were also obtained. Therefore, we conclude that Mechanism Design is a workable approach to Merger and Acquisition problems. More researches on this topic are deserved.
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