

# On Competitive and Welfare Effects of Cross-Holdings with Product Differentiation

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## **Abstract**

Competitive implications of cross-holdings has been extensively analyzed in the literature. While the literature has generally focused on cases with homogenous products, this paper is the first attempt to analyze competitive and welfare effects of cross-holdings allowing for product differentiation. We find that the standard results found with homogenous products are also valid with differentiated products. However, both the strength of the competitive implications and the conditions resulting in these implications critically depend on the degree of product differentiation. Furthermore, cross-holdings generally increase social welfare when products are complementary, but decrease social welfare when products are substitutable. Our analysis has useful empirical and policy applications.

*Keywords:* Cross-holdings, Oligopoly, Product differentiation, Cournot equilibrium

*JEL Classification:* D43, L13