Reverse Breakup Fees and Antitrust Approval

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  - Our signaling model w/ endogenous litigation spending captures these features to suggest if there is any rational for regulating breakup fees

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  - Asymmetric information & endogenous litigation spending:
    - Supra-compensatory breakup fees could be socially desirable
    - Even if they are, equilibrium breakup fees exceed the social optimum

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  - Mostly about risk allocation and investment incentives: Afrasharipour (2010), Quinn (2010), Choi and Triantis (2010), Mahmudi, Virandi, and Zhao (2015), Coates, Palia, and Wu (2018)

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    - R never wins against pcA;R wins against acA with probability $\pi(\psi_{ac})$;$\pi' < 0, \pi'' > 0$.

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  - Approved: T gets p, A gets $u_i - p - \psi_i$, R gets $B - \phi - z\psi_{pc}$ or $-L - \phi - z\psi_{ac}$.
  - Rejected: T gets $v + b$,A gets $-b - \psi_{ac}$,R gets $-\phi - z\psi_{ac}$

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  - Challenge if and only if: $q_R(\pi(\psi^*_{ac}(b, p))L - z\psi^*_{ac}(b, p)) - (1 - q_R)z\psi_{pc} - \phi \geq 0$

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  - $(1 - h_{ac}\pi_{ac}(\psi_{ac}))(u_{ac} - p) - h_{ac}\pi_{ac}(\psi_{ac})b - h_{ac}\psi_{ac} \geq (1 - \pi(\psi_{ac}))(u_{ac} - v) - \psi_{ac}$if b small enough

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  - Pooling equilibrium only has challenges from all mergers with high signal

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  - acA offers $(0, v)$

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- What happens if both effects are present?

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    - Both types will offer a contract with $b > b^*$

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  - *pcA* offers $(b, p)$and *acA* mixes between $(b, p)$and $(0, v)$

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- Pooling equilibrium with challenges
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