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In recent years, different mergers have taken place both in the financial and manufacturing sectors. These processes have raised questions as to the policies implemented with regard to trade offs between profits via efficiency and those related to social costs, given the presence of greater market power. If profits due to efficiency surpass the resulting social losses as a result of increased market power, mergers then may be of interest from the economic and antitrust perspective.

This analysis will look at mergers from different angles: first, mergers can improve cost efficiencies; second, they can improve the efficiency of benefits that involve combining raw materials and superior products , and third, they can provide greater price setting benefits by exercising market power. A greater concentration or participation of business enterprises within the market can provide the basis for intermediaries to establish higher rates for their goods or services, or to lower deposit rates without having efficiency improvements.

Unfortunately, not many studies have analyzed the gains associated with bank mergers. Furthermore, not many have dwelt on the price changes when mergers take place. Price changes reveal the effects of mergers on market power, plus the effects on prices due to higher bank operational efficiency. In this study, the role of mergers is analyzed with regard to their efficiency in benefits and market power. This analysis is based on data taken from the Colombian financial system over the 1996-2004 period.