

## QUIZ 7 VERSION A "Antitrust Policy on Horizontal Mergers"

**INSTRUCTIONS:** This exam is closed-book, closed-notes. Simple calculators are permitted, but graphing calculators or calculators with alphabetical keyboards are NOT permitted. Mobile phones or other wireless devices are NOT permitted. Points will be subtracted for illegible writing or incorrect rounding.

**Multiple choice:** Circle the one best answer to each question. [10 pts each]

- (1) Suppose a bicycle manufacturer merged with another bicycle manufacturer. This would be an example of a
- a. horizontal merger.
  - b. vertical merger.
  - c. conglomerate merger for product extension.
  - d. conglomerate merger for market extension.
  - e. pure conglomerate merger.

- (2) Suppose a bicycle manufacturer merged with a skateboard manufacturer. This would be an example of a
- a. horizontal merger.
  - b. vertical merger.
  - c. conglomerate merger for product extension.
  - d. conglomerate merger for market extension.
  - e. pure conglomerate merger.

- (3) The term "economies of scale" refers to
- a. large economies like the United States and Japan.
  - b. average costs that fall with output.
  - c. total costs that rise with output.
  - d. total costs that fall with diversification.

- (4) Suppose a firm has the following costs:

SUVs	Compact cars	Total cost
1,000	0	\$20,000,000
0	1,000	\$10,000,000
1,000	1,000	\$25,000,000

- This firm enjoys
- a. natural monopoly.
  - b. upward-sloping supply.
  - c. economies of scale.
  - d. diseconomies of scale.
  - e. economies of scope.

- (5) The U.S. Supreme Court showed a concern for potential competition in the
- a. *ALCOA* (1964) and *Continental Can* (1964) cases.
  - b. *Bethlehem Steel* (1958) and *Procter and Gamble-Clorox* case (1967).
  - c. *Brown Shoe* (1962) and *Von's Grocery* (1966) cases.

(6) Which type of merger is most likely to be opposed by the government today?

- a. a horizontal merger.
- b. a vertical merger.
- c. a conglomerate merger for product extension.
- d. a conglomerate merger for market extension.
- e. a pure conglomerate merger.
- f. all of the above are equally likely to be opposed.

(7) Of all mergers reported to the federal government today, the fraction challenged is typically

- a. less than 3%
- b. between 3% and 10%.
- c. between 10% and 25%.
- d. between 25% and 50%.
- e. more than 50%.

(8) According to the DOJ-FTC *Horizontal Merger Guidelines*, the ability of a hypothetical monopolist to impose a "small but significant and nontransitory increase in price" should be used to

- a. compute a merged firm's Lerner index.
- b. define the extent of a market.
- c. decide whether a merger should be opposed.
- d. compare with any cost savings.
- e. regulate price in a market.
- f. distinguish vertical, horizontal, and conglomerate mergers.

(9) Typically, if the definition of the market is broadened to include more products believed to be close substitutes, then

- a. the Hirschman-Herfindahl index (HHI) will increase.
- b. the HHI will decrease.
- c. The HHI is not usually affected by market definition.

(10) According to the DOJ-FTC *Non-Horizontal Merger Guidelines*, a conglomerate merger for market extension or product extension may be challenged if the acquired firm's market is highly concentrated and the merger

- a. raises the probability of collusion across firms.
- b. raises costs of the acquired firm.
- c. increases concentration further.
- d. eliminates potential competition.
- e. any of the above.

[end of quiz]