

QUIZ 7 VERSION B "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 a bicycle tire maker. 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 gasoline distributor in the Midwest merged with a gasoline distributor in the South. 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 scope" 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:

Computers	Mobile phones	Total cost
1,000	1,000	\$325,000
1,000	0	\$300,000
0	1,000	\$50,000

This firm enjoys

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

(5) The U.S. Supreme Court showed a willingness to stop mergers involving even small market shares 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 vertical merger.
- a horizontal merger.
- a conglomerate merger for product extension.
- a conglomerate merger for market extension.
- a pure conglomerate merger.
- 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

- less than 5%
- between 5% and 20%.
- between 20% and 50%.
- between 50% and 75%.
- more than 75%.

(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

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

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

- the Hirschman-Herfindahl index (HHI) will increase.
- the HHI will decrease.
- 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

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

[end of quiz]