ECON 180 - Regulation & Antitrust Policy
Drake University, Spring 2015
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QUIZ 8 VERSION B
"Antitrust Policy on Vertical Mergers and Vertical Restraints"

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) Vertical integration
a. allows changes in product specification without renegotiating contracts.
b. reduces transaction costs.
c. spreads the risk of price fluctuation.
d. all of the above.

(2) The view that vertical mergers are generally *not* a problem, because simple models show that either they are unprofitable or they do not decrease welfare, is called the
a. Supply-side view.
b. Traditional or Harvard School view.
c. Chicago School view.
d. Post-Chicago view.

(3) The view that vertical mergers *may* be a problem, because less-simple models, analyzed using game theory, show that they can sometimes both be profitable and decrease welfare, is called the
a. Supply-side view.
b. Traditional or Harvard School view.
c. Chicago School view.
d. Post-Chicago view.

(4) Suppose a monopolist sells an electronic device that includes a component that it must purchase from a different monopolist. If the two monopolists merge then their total profit would
a. remain constant and the price of the device would remain constant.
b. rise and the price of the device would rise.
c. fall and the price of the device would fall.
d. fall but the price of the device would rise.
e. rise but the price of the device would fall.
f. Cannot be determined from information given.

(5) Suppose a software monopolist sells an operating system to manufacturers of computers. Each computer requires one copy of the operating system. (Assume the market for *computers* is competitive.) If the software monopolist were to extend its monopoly into the downstream computer market, its profit
a. would fall to zero.
b. would remain unchanged.
c. might increase.

(6) Suppose there are only two makers of a particular part which is used in flat-screen televisions. The market for parts is therefore not perfectly competitive. If one parts maker merges with a television maker, the *other* television makers' costs will

a. not be affected because they did not merge.
b. increase.
c. decrease.
d. Cannot be determined from information given.

(7) The government was most lenient on vertical mergers

a. in the 1960s.
b. in the 1980s.
c. since 1995.
d. The government has always treated vertical mergers extremely aggressively.

(8) Examples of vertical restraints do *not* include

a. exclusive dealing.
b. resale price maintenance.
c. tying.
d. predatory pricing.
e. territorial restraints.

(9) Why might a manufacturer of a product require retailers to maintain a *minimum* retail price?

a. To encourage discount retailers like Walmart to sell the product.
b. To increase the quantity demanded by consumers.
c. To prevent “double marginalization.”
d. To encourage retailers to provide marketing services like showrooms and personalized sales.

(10) Suppose Grade-It Inc. makes test-scoring software and has some market power. Grade-It Inc. requires its customers to buy only its own brand of answer sheets for use with its test-scoring software. If the explanation for this tying practice is price discrimination, then we would expect Grade-It Inc.'s brand of answer sheets to be priced

a. free.
b. below cost but not free.
c. at cost.
d. above cost.

[end of quiz]