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Submission date: 25-Aug-2021 04:17PM (UTC+0700)
Submission ID: 1635689745
File name: Section_B.docx (12.11K)
Word count: 243
Character count: 1347

Section B

Question 1

a).

True. Beer in Birmingham is the relevant market. Beer is highly substitutable based on the price and intended use. Herein, raising beer prices by a small margin above the general levels may provoke consumers in the area to divert their preferences to other alcoholic beverages, substitution arising from changes in relative prices.

b).

False. Horizontal mergers are likely to improve the economy's welfare because they tend to gain larger market access, increased customer base, reduced competition, and a reduced average cost of production. The firms will stand a better chance to diversify their products and services in new markets, thus improving economic welfare.

c).

True. Exclusive dealing would solve the free-riding problem for upstream manufacturers because their marketing outlets will comprise one manufacturer's product in a particular product type. Herein, every manufacturer will be required to cater for the production and marketing of their products; thus addressing the free-rider problem.

d).

False. Coordinated effects are likely to occur when a merger results in an increased likelihood of silent collusion. In other words, coordinated effects are more likely to occur when there is asymmetric information in the market, and hence it is hard to attain efficiency gains.

e).

True. When firm capacity is constrained, the Cournot model is likely to apply more appropriately. In this case, firms are likely to produce standardized goods and make an effort to maximize profit. Capacity constraints allow firms to choose the quantity simultaneously.

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