

Homework 4

Instructions

Upload this homework into the homework vaults in the IS no later than on 21/4 at 23.59. The homework submitted after this date can be evaluated only if you have an excuse in the IS for at least 3 working days in the week between the given lectures and seminars (from these five: Wed, Thu, Fri, Mon, Tue) and the teacher has given you an alternative date when you submit your homework. We expect that you write the homework on your own. Should your answers resemble with the answers in someone else's homework, we might deduct points from your score. We appreciate the effort and thorough thinking (whether your answers make sense, whether you have supported all your claims by careful argumentation, whether your answers are informed by data). Try to formulate ideas as concisely as possible. Certainly do not add any "dummy text" just in order to get closer to the maximum extent. The final document can be inserted into the System in all standard formats (doc, docx, odt, pdf, ...). Title the document Homework 4 (your name and surname will be added to the name of the document automatically).

Task (6 points, maximum 800 words)

Read the paper by Shapiro (1995) (see the study materials). Answer the following questions. Please, use your own formulations. Do not copy sentences or formulations from the paper:

1. What are unilateral and coordinated effects of a merger?
2. How does the approach of the competition agency differ for markets with homogeneous and differentiated products?
3. What are incremental costs (you can find the definition also in other sources)?
4. Define the diversion ratios from brand A to brand B. What are the premerger gross margins?
5. How do these two variables affect the profit-maximizing price increase? If the diversion ratio (premerger gross margin) is high, the price increase will be higher or lower? Explain the intuition behind it.
6. What is product repositioning? What is its likely effect on post-merger prices if the diversion ratio is high?