

Chapter 12 Project

Monopoly and Antitrust Policy

Purpose

In this chapter, you have learned that business growth, especially through mergers, is associated with both costs and benefits that affect consumers. Let's explore how these things relate to your everyday life.

The purpose of this exercise is to help you understand how consumers are affected by mergers, as well as the considerations of decision makers who must identify whether mergers are beneficial to society.

Directions

This exercise has two parts. In the first, you will consider a merger in an industry that produces a good important to your life. In the second, you will put yourself in the shoes of a decision maker who must approve or block the merger.

Part 1 - How Mergers Affect Consumers

Mergers allow firms to experience growth and realize large-scale production. They also reduce competition. Economists are interested in whether the benefits associated with large-scale production and the resulting loss in competition outweigh the costs, especially in the everyday lives of consumers.

1. Refer to Table 2 in Lesson 12.1, which lists four U.S. industries and the five largest firms in each. First, choose one U.S. industry that produces a good you consider to be important in your everyday life. Make note of the industry.
2. Referring to this chapter and the theory of the firm, create a chart to list both the benefits and costs associated with a merger of the five largest firms for your chosen industry and for your own everyday life. Please provide at least five benefits and five costs. You may list more if applicable.
3. After completing your chart, use its contents to write a paragraph detailing whether you believe a merger in your chosen industry would make you better off as a consumer, worse off as a consumer, or have little to no impact on your life.

This requires you to think about this theoretical merger in the context of your own everyday life. The best analysis will be specific and demonstrate application to your own experiences as a consumer.

In Part 1, you concluded whether a merger of the five largest firms in your chosen industry would make you better off as a consumer, worse off as a consumer, or have little to no impact on your life. Policy makers and regulators often have similar considerations but in a more generalized way and for all consumers. This chapter outlined methods and numerical tools used by the FTC and the U.S. Department of Justice to approve or block mergers. When mergers are approved, the government often stipulates forms of regulation. This chapter also identified common forms of regulation used by the government when mergers are approved.

Part 2 - Thinking Like the Decision Maker

1. Imagine you are asked to make a recommendation to the U.S. government regarding a merger in the industry you chose in Part 1. Write a business memo of professional quality that includes a recommendation on the following:
 - a. Which method/numerical tool from the chapter should be used to determine if the merger should be approved or blocked, with justification?
 - b. Should the merger be approved, which form of regulation (if any) from this chapter should be a stipulation of the merger, with justification?

To inform your recommendation, consider your analysis in Part 1 and the industry sources in Table 2 from Lesson 12.1. The best recommendations will be confidently stated, with justifications that support economic theory. There is not a single correct analysis; therefore, answers will vary.

Checklist

Part 1

- ☐ Choose an industry from Table 2 from Lesson 12.1.
- ☐ List benefits and costs of the five largest firms in the industry.
- ☐ Explain the impact of a merger in the industry.

Part 2

- ☐ Consider if a merger should be approved or blocked.
- ☐ Write a business memo summarizing your recommendation.