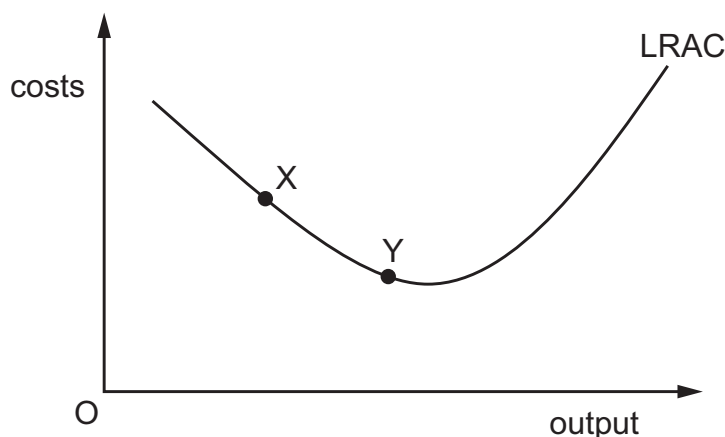


- 2** A small European airline currently produces at point X on its long-run average cost curve (LRAC). It wants a bigger share of the European airline market and proposes to merge with another small European airline. The newly merged firm would produce at point Y on the long-run average cost curve, as shown.



Why might the newly merged firm be able to produce at point Y?

- A** The new airline can negotiate discounts when buying fuel.
- B** The new airline has many layers of management.
- C** The new airline is unable to hire enough pilots.
- D** The workforce of the new airline lacks morale and is demotivated.

- 3** What is an example of forward vertical integration?

- A** A firm manufacturing computers merges with a firm that manufactures furniture.
- B** A firm manufacturing computers merges with a firm that manufactures silicon chips for computers.
- C** A firm manufacturing computers merges with a retail outlet that sells computers.
- D** A firm manufacturing computers merges with another firm that also manufactures computers.