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A2 Economics

Why Do Firms Grow?

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WORKSHEET

Revision Topic : Why do Firms Grow?

Multiple Choice Questions

Question 1

In their 1998 enquiry into the UK ice cream market the Competition Commission 'received a wide range of complaints' about the practice by Unilever, Mars and Nestle of entering into agreements with some retailers to stock only their respective products. A motive for ice cream producers to act in this way is likely to be to:

A open up the market to 'hit and run' competition
B increase the level of Allocative efficiency
C realize economies of scale from conglomerate integration
D increase the choice available to consumers
E realize benefits from vertical integration.

Question 2

In an interview with *The Financial Times* in October 2001, Brian Stewart, the chairman of Scottish and Newcastle plc, said he was interested in the potential acquisition of beer-distributing companies rather than rival brewers. This suggests that Scottish and Newcastle expect:

A gains from conglomerate integration
B gains from vertical integration
C gains from horizontal integration
D diseconomies of scale
E no gains from further growth.

Question 3

In August 2002 Whitbread, a leisure firm which owns the *Travel Inn* chain of hotels, started talks with a view to acquiring the chain of hotels from Compass, which is otherwise mainly a catering company. A possible reason for Whitbread's acquisition would be expected gains from:

A The integration of contestable markets.
B Conglomerate integration.
C Vertical integration.
D Horizontal integration.
E Diversification into other industries.

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Question 4

Kelso, a private equity firm based in New York, acquired Nortek Inc, a leading international designer and manufacturer of building products. This decision by Kelso was likely to have been based on expectations of:

- **A** Gains from conglomerate integration
- **B** Gains from vertical integration
- **C** Gains from horizontal integration
- **D** Diseconomies of scale in the manufacture of building products.
- **E** Dynamic inefficiency in the manufacture of building products.

Question 5

In 1999 Reckitt & Colman merged with the Dutch company Benckiser. The resulting company makes fifteen core products as diverse as *Dettol* antiseptic, *Finish* dishwasher soap powder and *Disprin,* the leading brand of aspirin. The firm has a policy of acquiring established brands rather than developing its own.

This information suggests that the company's bid for the *Wilkinson Sword* brand of razors was part of a strategy of:

- **A** horizontal integration.
- **B** vertical integration
- **C** conglomerate integration
- **D** increasing its expenditure on research and development.
- **E** raising marketing expenditure on new brands.

Question 6

In March 2004, the supermarket business Morrisons made a successful takeover bid for Safeway. This increases Morrisons' share of the UK grocery market to 13.9%. A possible motive for the takeover was to:

- **A** increase profits from internal growth.
- **B** increase revenue from conglomerate integration.
- **C** gains more economies of scale.
- **D** increase its monopoly power.
- **E** reduce costs through vertical integration.

Question 7

In 2007 Nike, a US sportswear company, bid £285 million for Umbro, a British sportswear company. A possible motive for this proposed takeover was to:

- **A** increase profits from internal growth.
- **B** reduce costs through vertical integration.
- **C** gains economies of scale.

D obtain benefits associated with conglomerate integration.
E increase diseconomies of scale from its US operations.

Question 8

In June 2005 the European Commission reported that the Coca-Cola Company frequently imposed exclusivity arrangements with retailers to stock only their soft drinks. A motive for Coca-Cola to act in this way is to:

A increase the choice of soft drinks to consumers.
B obtain benefits associated with horizontal integration.
C diversify into unrelated markets.
D obtain benefits associated with vertical integration.
E reduce concentration in the soft drinks market.

Question 9

In 2006, Great Universal Stores (GUS) split into two separate businesses, Argos Retail Group (ARG) and Experian. ARG took control of Argos and Homebase retail stores whereas Experian took control of the credit checking and marketing businesses. The most likely reason for the demerger might have been that GUS was facing.

A increasing long-run average costs.
B an increase in exit barriers
C constant returns to scale
D predatory pricing from its competitors
E decreasing long-run average costs.