

MERGER ANTITRUST LAW

LAW 1469
Georgetown University Law Center
Fall 2026

Tuesdays and Thursdays, 3:30 pm – 5:30 pm
Dale Collins
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CLASS 13 HOMEWORK ASSIGNMENT

Instructions

Submit by email by 3:30 pm on Tuesday, October 6
Send to wdc30@georgetown.edu
Subject line: Merger Antitrust Law: Assignment for Class 13

Assignment

Part A. Unilateral effects and the size of a price increase

Calls for calculations (preferably using a spreadsheet) and short explanations. Show your work.

AeroSound proposes to acquire ClearTone. The companies sell competing, differentiated headphones. At prevailing prices, AeroSound sells 10,000 pairs of headphones per week for \$100 per pair, with a marginal cost of \$60. The \$100 price maximizes AeroSound's standalone profits. ClearTone charges \$80 and has a marginal cost of \$60 per pair. The merger itself does not change demand at unchanged prices. Assume constant marginal costs, no changes in fixed costs, and sufficient capacity to serve the stated quantities. Except in part (d), the merger does not change marginal costs.

Reliable evidence establishes the following weekly sales for AeroSound at alternative prices. Assume AeroSound's demand is linear over the relevant range of prices, including between the listed prices. The prices and other competitive conduct of ClearTone and all other suppliers remain unchanged:

AeroSound's price per pair	AeroSound's weekly sales (pairs)
\$100	10,000
\$101	9,750
\$102	9,500
\$103	9,250
\$104	9,000
\$105	8,750

For each price above \$100, 20% of the sales AeroSound loses, compared with its original 10,000 sales, would divert to ClearTone; 50% would divert to StudioWave, an independently owned competitor; and the remaining 30% would go to other suppliers or be purchases forgone. Each diverted sale is one pair of headphones. Assume these diversion ratios remain constant over the relevant range of price changes.

- (a) For each listed price, calculate the change in AeroSound's weekly profits, the additional profits recaptured by ClearTone, and the net change in the combined firm's weekly profits, relative to leaving both products at their original prices. Present your calculations in a table. Which listed price is most profitable for the combined firm, holding ClearTone's price constant?
- (b) Calculate AeroSound's Gross Upward Pricing Pressure Index (GUPPI). Under the assumptions of this problem, use the GUPPI to determine the positive breakeven percentage increase in AeroSound's price and the profit-maximizing percentage increase, holding ClearTone's price constant. Reconcile both results with your table in part (a). What assumptions are needed to translate the GUPPI into this price prediction?
- (c) AeroSound's CEO argues that the acquisition cannot raise a unilateral effects concern for two reasons: a 5% increase in AeroSound's price would not be profitable, and more of AeroSound's lost sales would divert to StudioWave than to ClearTone. Using your calculations, explain whether either argument is correct. You need not analyze changes in ClearTone's price.
- (d) *Bonus (optional)*. You need not submit an answer to this part. For this part only, suppose the merger reduces AeroSound's marginal cost while ClearTone's price and marginal cost remain unchanged. All demand and diversion assumptions also remain unchanged. Calculate the compensating marginal cost reduction needed to offset AeroSound's merger-created incentive to raise its price above the original \$100. Express the reduction both in dollars per pair and as a percentage of AeroSound's original marginal cost. Explain why that percentage differs from the GUPPI calculated in part (b). You need not assess whether the cost saving would satisfy the legal requirements for a cognizable efficiency.

Part B. Elimination of a maverick

Calls for a short memorandum of law to the client of about 1,000 words.

You are an associate at Able & Baker LLP working with partner Margaret Chen. The firm represents Stonebridge Technologies, Inc., a supplier of personal cloud-backup services that is considering acquiring one of several smaller competitors. Elaine Porter, Stonebridge's general counsel, reports that a director has read that the antitrust agencies sometimes challenge acquisitions of "mavericks" even when the target's market share is small, and the board has asked what that means. Chen has asked you to draft a memorandum to Porter that she can share in confidence with the board.

The memorandum should explain:

1. what a maverick is and why its competitive significance can exceed its market share;
2. how the elimination of a maverick relates to coordinated effects;
3. what a plaintiff must show to establish the theory, as reflected in the Merger Guidelines and *H&R Block*; and
4. why an acquirer's plan to keep the target's managers or continue its competitive strategy does not necessarily answer the concern.

Use *H&R Block* and the FTC's *Edgewell* complaint as illustrations, keeping in mind that the complaint states allegations, not findings. Write for intelligent nonlawyers, and support your explanation with citations to the assigned materials.

The assigned materials, class notes, and class slides contain the materials needed to complete the assignment. No outside research is required.

If you have any questions, send me an email.