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 22 Homework Assignment

Instructions

Submit by email by 3:30 pm on Tuesday, November 10
Send to wdc30@georgetown.edu
Subject line: Merger Antitrust Law: Assignment for Class 22

Assignment: Calls for a memorandum to a partner (which may be sent to a client)

Elimination of Double Marginalization

You are an associate at Able & Baker LLP. Dianne Lockhart, a partner in the firm's antitrust group, has sent you the following email.

> From: Dianne Lockhart
> Subject: Summit/Trail: The chief executive's "$20" claim
>
> Our client Summit Bag Company has agreed to acquire Trail Market. Summit makes insulated picnic bags, and Trail sells them to consumers. Summit's chief executive is convinced the deal is good for customers, and he wants us to make that point to the agencies. Here is how he puts it:
>
> > *"We make $20 on each bag we sell to Trail. Once we own Trail, we can eliminate that markup and reduce the price customers pay by the full $20. Everyone will benefit."*
>
> I gather economists call this "eliminating double marginalization," but I have never really understood what that means, and I do not want to repeat his argument to the agencies unless I am confident it holds up. Is he right? If prices would not fall by the full $20, how much would they fall, and why wouldn't Summit pass along the whole $20? How much would customers actually gain, and how does that compare with what Summit gains? Can we rely on this argument with the agencies, and does it mean the deal is lawful? What else should I know before we use it?
>
> I am not an economist, so please explain this in a way I can explain to the client. I may forward your memo to the chief executive. Show me the numbers behind your conclusions. Here are the facts the client has given us:
>
> - Trail buys its picnic bags only from Summit, and every bag Trail buys is sold to a customer.
> - Summit charges Trail $38 a bag. It costs Summit $18 to make each bag.

- Trail sells each bag for $54. On top of the $38 it pays Summit, Trail spends $6 a bag to sell it.
- Trail sells 400 bags a month.
- Each customer buys at most one bag a month.
- The two companies deal only through the $38 per-bag price. There are no fees, quantity discounts, or agreements about the price Trail charges customers.
- There are no fixed costs, inventory changes, losses, or capacity limits.
- Trail's pricing team estimates that each $1 cut in Trail's retail price would add 40 bags a month in sales.
- The client believes that all of Trail's additional sales would come from customers who do not now buy Summit bags.
- Trail's pricing team also says that when Trail's cost per bag goes down by $1, Trail cuts its retail price by $0.50.
- The acquisition will not change what it costs to make or sell a bag. After the acquisition, Summit will run the two businesses to maximize their combined profit.

Thanks,
Dianne

If you have any questions, send me an email. See you in class.[1]

[1] *Technical assumptions*. For purposes of the assignment, assume the following. Each cost is the same for every bag. Before the acquisition, Summit sets its per-bag price to Trail anticipating how Trail will respond, and each company maximizes its own profit. Demand, quality, and the companies' other business activities are unchanged. Treat the pricing team's estimates as accurate for retail prices from $34 to $55. You do not have to state these assumptions in your answer.