Question 2 (Answer: **A**)

- Point X is on the downward-sloping part of the LRAC curve, so there are economies of scale still to exploit.
- Merging raises output, which moves the firm further down the curve.
- So average cost falls – the merger is justified by economies of scale.

Question 3 (Answer: **C**)

- Vertical integration joins firms at different stages of the same production chain.
- *Forward* means moving towards the customer – towards retail or distribution.
- So a computer maker merging with a computer retailer is forward vertical integration.