Wilf Csaplar Jr.   Economics 280   Homework #6   Due Thurs. 3/27

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1) (25 points) Draw the diagram of the marginal benefits and marginal costs as a function of the length of time for a contract. (Warning: the vertical axis in the book is wrong.) Suppose that a new technology appears that turns the formerly specialized investments into non-specialized investments. Illustrate that on the diagram. Explain why the curve(s) moved as drawn. On page 213, the book says that the new situation is one in which the company would use the spot market. How would the diagram you drew show that may be beneficial?

2) (20 points) What is the principal-agent problem with workers? How do commissions reduce that problem?

3A) (15 points) Suppose that the firms below had the following sales. Calculate CR4, CR10, and Herfindahl-Hirschman index. Show all work. For the HHI, you can use any of the methods we described because they will give the same answer.

A	B	C	D	E	F	G
$100	$150	$250	$300	$350	$400	$450

3B) (10 points) Suppose that the two smallest firms want to merge. Would the Department of Justice be likely to approve, disapprove, or ask for more information? Explain your logic.

4) (10 points) The author says the Rothschild index is between 0 and 1. Explain how he came to that conclusion.

5) (20 points) I believe that there was a proposed merger between Staples and Office Max, but it could have been Office Depot. The justice department did a calculation and said that in many parts of the country, the HHI would be 10,000. The two companies said that the number would be more like 2000. How could the two sides get such extremely different numbers?