3. Matilda Bottlers bottles and distributes wines and spirits in Australia. Big Gator is a conglomerate that manufactures, among other things, a popular lager beer. By virtue of a life time contract, Matilda has exclusive rights to bottle and distribute Big Gator beer in New South Wales, the largest state in Australia. Matilda uses its monopsony power to pay a lower price for Big Gator beer than do bottlers in other states. Is this sufficient justification for Big Gator to buy out Matilda Bottlers? *Explain.*

4. In each of the following situation, why are firms likely to benefit from vertical integration?
   a. A *grain elevator* is located at the terminus of a *rail line.*

   b. A *manufacturer* of a product with a national brand-name reputation uses *distributors* that arrange for advertising and promotional activities in local markets.

   c. A *biotech firm* develops a new product that will be produced, tested, and distributed by an established pharmaceutical company.

10. Suppose that Governor Arnold Schwarzenegger (GAS) pays Besanko, Dranove, Shanley, and Schaefer (BDS²) an advance of $5 million to write the script to *Incomplete Contract,* a movie version of their immensely popular text on business strategy. The movie contract includes certain script requirements, including that GAS gets to play a strong, silent business strategist with superhuman analytic powers. BDS² spend $100,000 worth of their time to write a script that is tailor-made for the ex-Terminator (GAS, that is). When they turn in the script, GAS claims that it fails to live up to the contractual requirement that he have several passionate love scenes, and he attempts to renegotiate. Given the ambiguity over what constitutes passion, BDS² are forced to agree.
   a. What was BDS²’s rent?

   b. What is their quasi-rent? What assumptions do you have to make to compute this?

   c. Could BDS² have held up GAS? Explain