**Essay Question 11**

**The growth of emerging economies such as China and India has seen their companies growing into global corporate giants by acquiring big established companies of Western economies.**

**(a) Explain why companies from emerging economies might want to acquire those of Western economies. [10]**

**Introduction**

There are many advantages to be reaped when companies from emerging economies acquire the firms in the Western economies. These advantages can be seen from both the perspectives of cost of production and market demand.

**Main Body**

1. Enables the firm to reap the cost advantage gained from economies of scale from large scale production made possible by a larger international market demand.
   1. Explain how the firm can reap the various forms of economies of scale as a result of the large scale production (must explain at 2 types of Economies of Scale) – Technical, managerial, commercial, financial, risk-bearing

i) Technical EOS:

-Larger market demand 🡪↑production🡪big machinery 🡪↑productivity

-Division of labor 🡪familiarity of work 🡪↑productivity🡪↑production

ii) Commercial EOS:

-Advertising 🡪 international branding 🡪↑dd🡪↑production

* 1. Use diagram to explain how the firm can lower the long run average cost of production.

The LRAC will be lowered as the firm’s production capacity increases as the total cost is now spread over a larger number of output or the total cost may increase at a decreasing rate. (cost of resources is purchased at a low rate due to bulk buying)

LRAC

AC

AC2

AC1

Q1

Q2

Qty

As seen from the diagram, the long average cost of production (LRAC) will fall from AC1 to AC2 when the production increases from Q1 to Q2.

1. **Besides cost advantages, the firms in China and India can also gain other forms of advantage seen in term of the followings (Advantages of merger, advantages of international trade/ FDI – market advantage – demand aspect):**

* Expand the scope of market demand as the firms in China and India can assess new market demand in Western economies. The consumers in the Western economies are familiar with the firms in the local economy. (risk-bearing economies 🡪 spread risk through diversification of market demand)

J1

* Can also assess the distribution network of the Western economies to help the firms in China and India expand market demand. (Make it easier to sell and distribute products)
* May also gain the technological knowledge which will enable to raise their efficiency in production. (changing prices at different level for different consumers)
* Can gain global market demand which will help to raise the total revenue for the form
* Can raise the firms’ international profile as the firm’s business stretches across different markets. Furthermore, if the firms in the Western economies are of certain market profile, it will help to raise the profile of the firm in China and India.
* Can extend their international market share which will enable them to have greater market power at a global scale – enable the firms to set price at the profit-maximised level or conduct price discrimination.
* Enable the firms to overcome trade barriers which may occur when the Western economies create trade blocs which will have common tariffs against the Chinese and Indian firms. (produce their goods in foreign market, avoid trade barriers)

**Conclusion**

**Essay Question 11**

**The growth of emerging economies such as China and India has seen their companies growing into global corporate giants by acquiring big established companies of Western economies.**

**(b) Discuss how such acquisitions might affect the consumers and producers in the industries of the Western economies where these occur. [15]**

**B) Introduction**

The acquisition of the firms in Western economies can create greater impact on the nations where the firms are being bought over and these impacts can be seen from the impact on consumers and producers in the country. (producers/ firms which are acquired/ firms which are not acquired)

Main Body

**1. Explain how the acquisition will affect the producers in the Western economies.**

**Benefits:**

* The firms that are acquired will have more resources for production
* The firms that are acquired will be able to assess the market in India and China
* Experience EOS🡪↑Production🡪↓COP
* Able to import cheaper source of inputs

**Detriments:**

* May experience diseconomies of scale – cultural differences/low labour morale
* Intense competition against other local firms

**2. Explain how the acquisition will affect the consumers in the Western economies (advantages and disadvantages of mergers to consumers).**

**Benefits:**

* Decrease price for the consumers due to cost-savings passed onto them 🡪depends on the degree of market power the firm can create. If weak 🡪 lower price
* Provide product variation 🡪 raise consumer satisfaction
* Prevent formation of market power 🡪 presence of foreign firms

**Detriments:**

* Foreign firms may undermine the quality of goods due to the lack of understanding of the local market
* Market power may be created by foreign firms 🡪 consumer exploitation