

Two and miramax

Law, Contract Law



ETC creates and distributes entertainment throughout the world. Miramax is part of the conglomerate, Colony Capital and Qatar Holding, which creates movies, among other products. By virtue of a contract, ETC has exclusive rights to distribute Miramax movies in the U.S., the largest market (in terms of revenue). ETC uses its monopoly power to pay a lower price for Miramax movies than do other distributors. Is this sufficient justification for Colony Capital and Qatar Holding to buy out ETC?

Expiate. (1 point) This is not sufficient justification. It certainly is an avenue to consider, however, the only way to truly justify purchasing ETC is to weigh the other option available which is to start their own distribution company. If the cost of starting their own distribution company teamed with a higher cost to distribute the movies brings in a higher revenue than the cost of purchasing ETC teamed with distributing the movies at a lower cost than it would be better to start their own distribution company and vice versa. . In each of the following situations, why are firms likely to benefit from vertical integration? (1 point each) a. A grain elevator is located at the terminus off rail line. Owning grain elevator(s) is beneficial to the rail line because it allows the rail line more control over the grain elevator which in turn allows for more efficient planning and streamlined logistics as opposed to attempting to plan along with a separate company. B.

A manufacturer of a product with a national brand-name reputation uses distributors that arrange for advertising and promotional activities in local markets. Vertical integration in this respect can allow the company to gain valuable insight into the markets and in learning what they want through advertising and promoting can turn around and update their product or

create new products to meet the various market needs. C. A biotech firm develops a new product that will be produced, tested, and distributed by an established pharmaceutical company.

The vertical integration of a biotech firm owning a pharmaceutical company is similar to the grain elevator and rail line. In that communication, planning and logistics becomes easier and possibly more cost effective by owning the established pharmaceutical company. ND delivering each episode of the 1st season of the new series based on "Shakespeare in Love." Suppose further that the contract included certain script requirements for background music decided upon by Miramar, and ETC spent an additional \$20,000 per episode to meet those requirements.

Then suppose that after pre-screening 3 episodes, Miramar claimed that Tic's efforts failed to live up to their contractual agreements. (2 points each: 1 for explaining the concept, and 1 for applying it correctly) a. Was either party earning rent? What assumptions do you have to make to assert this? ETC would be earning the rent. Their rent would be the profit (\$20 million less the cost of producing the episodes, including the additional cost per episode to meet the musical requirement.) b.

Was either party earning quasi-rent? What assumptions do you have to make to assert this? ETC would be earning quasi-rent assuming that they are able to see the episodes to another company or if they are able to come to an agreement with Miramar at a lower price than the original \$20 million that they originally agreed upon. Their quasi-rent would be the difference

between their rent (question a) and their new mount of revenue. C. Could ETC have held up Miramar? And/or could Miramar have held up ETC?

Explain. ETC could definitely hold up Miramar by turning around and refusing to provide them with the episodes at the agreed upon price. This leaves Miramar to consider the costs and time involved with getting another affiliate to complete the Job or paying ETC the requested amount. Miramar can likewise hold up ETC through refusing to pay the agreed upon price. This leads ETC to choosing between providing the episodes at a lower price or seeking another buyer who may not pay as much as they hoped.