**FAQs**

1. What is horizontal integration?

A firm which produces a number of closely substitutable products would usually be regarded as horizontally integrated.

2. What is vertical integration?

A firm which produces products or services enjoying significant input –output relationships would be regarded as vertically integrated.

3. What is Product extension diversification?

It involves the production of products related to some extent in their production or demand. When products are related in demand it is called marketing concentricity. When products are related in production processes, it is called technological concentricity.

4. What is Market extension diversification?

It involves sale of products in geographically distinct markets.

5. What is Conglomerate diversification?

It involves production of products which are unrelated in production or demand.

A conglomerate, by definition, is a large corporation with diversified product lines**,** owned and run by the same management. Conglomerates are defended for their synergies, and for the benefits of diversity as a hedge against failure in one sector. But conglomerates are inherently more vulnerable than other companies.

6. What are the advantages of diversification?

Diversification can offer companies many advantages. From a financial point of view, they include cost reduction, asset depreciation and risk reduction. Strategic advantages involve synergies or the expansion, creation and improvement of long-term strategic assets.

7. Which strategies are involved in diversification?

The strategies of diversification can include internal development of new products or markets, acquisition of a firm, alliance with a complementary company, licensing of new technologies, and distributing or importing a products line manufactured by another firm.

8. How does diversification restrict new entry?

A diversified firm is likely to be able to raise capital on terms more nearly comparable to existing firms, either from the capital market or from its own sources. In addition, diversified firm can more readily stand an initial period of loss making in a new market until it establishes sufficiently to move into profit. On both counts, therefore diversified entry is likely to provide an important supplementary force tending to promote competition in situations where entry by a new specialist firm would be difficult.

9. When does predatory pricing occur?

Predatory pricing occurs when dominant firm or firms cut price to drive out or discipline competition in the short run in order raise prices towards monopoly levels in the longer run.

10. Define types of mergers.

Three basic kinds of mergers are: horizontal mergers, which involve two competitors; vertical mergers, which involve firms in a buyer-seller relationship; and potential competition mergers, in which the buyer is likely to enter the market and become a potential competitor of the seller, or vice versa.