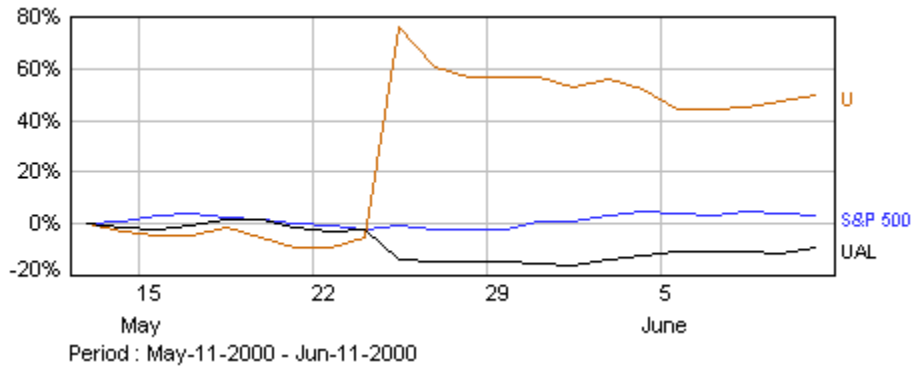


Case 10.1. Merger announcement by UAL and the Market Reaction. On May 24, 2000 UAL (the parent of United Airlines) announced a merger with USAir, at about a 50% premium over USAir's stock price of 40. According to Fortunes, UAL is the second largest airline (ARM, the parent of American Airline is bigger) and USAir is number 6. This is a horizontal merger, would make UAL the largest airline, and would increase UAL's market share in several key markets. How did the market react? A stock chart is presented below (USAir's ticker is U):



- Analyze the stock price reaction of USAir to the merger announcement.
- Analyze the stock price reaction of UAL to the merger announcement.

a.	<i>The stock price of US Air went up over 70% upon the announcement & then dropped back to reflect the actual agreement price of about 50%</i>
b.	<i>The stock price of UAL dropped slightly with the announcement and stayed down, suggesting that investors were not enthusiastic about the acquisition</i>