

ECO 610
Final Exam
TEI Piraeus/University of Kentucky MBA Program
October 2006

Name _____

e-mail address _____

Instructions: Answer each question in the space provided. Point values are indicated beside each question. 80 points total. You have four hours to complete this exam, so you should use your time wisely so that you are able to answer all questions. You may use your own textbook, class notes, handouts, or other written material from the course, but you may not borrow anything from another student during the exam. You may use your own calculator, but you may not borrow a calculator from another student. Talking with another classmate during the exam is forbidden! You may ask Petros if you have any questions. Please write clearly. Good luck!

Multiple Choice Questions: 2 points each, circle the correct answer.

1. Which of the following would cause the demand curve for Greek wines to shift to the right?
 - a) A fall in the price of Italian and French wines.
 - b) A fall in the price of Greek wine.
 - c) A fungus that ruins grapes in Greek vineyards.
 - d) An increase in the price of beer.

2. You own the only movie theater (cinema) in Rafina, Greece. You find that when you increase the price of admission from 4 euros to 5 euros, weekly attendance declines from 600 to 540. Own-price elasticity of demand is approximately equal to:
 - a) 0.4
 - b) 1.0
 - c) 2.5
 - d) 60

3. The adoption of factory-farm production methods in raising alligators causes the MES to increase significantly and the minimum ATC to fall. In five years we would expect:
 - a) Fewer alligator farmers and a lower price for alligator skins.
 - b) More alligator farmers and a higher price for alligator skins.
 - c) Fewer alligator farmers and a higher price for alligator skins.
 - d) More alligator farmers and a lower price for alligator skins.

4. The short-run average cost curve is always U-shaped. The reason that the SRAC eventually slopes upward is because:
 - a) Increasing returns to scale eventually become decreasing returns to scale.
 - b) The law of diminishing returns.
 - c) Diseconomies of scale.
 - d) Increasing marginal returns.

5. When $Q=4$, average variable cost is equal to \$10 and average fixed cost is equal to \$15. When $Q=5$, average total cost is equal to \$25. What is the marginal cost of the fifth unit of output?
 - a) \$10
 - b) \$15
 - c) \$25
 - d) \$50

6. The cross-price elasticity of demand between two products is -3.0. For which of the following products might this be true?
 - a) Toothbrushes and toothpaste.
 - b) Mouthwash and toothpaste.
 - c) Orange juice and toothpaste.
 - d) Toothbrushes and dental floss.

7. Which of the following is **not** an example of a specialized asset?
- a) A company that makes automobile window glass builds a new plant right next to the Toyota plant that it supplies.
 - b) A high-school student graduates and decides to attend college.
 - c) A MacDonal’s franchisee buys a large neon sign in the shape of the “golden arches” to put outside her restaurant.
 - d) A plastics company adds a new building and production equipment to supply a new customer.
8. Which of the following is **not** an example of a principal-agent relationship?
- a) Citizen-voters in Athens and the mayor of Athens.
 - b) Professor Scott and ECO 610 students.
 - c) Parents and their children.
 - d) Brothers and sisters.
9. Product-specific economies of scale may arise for all of the following reasons **except**:
- a) Learning by doing.
 - b) Team production.
 - c) Specialization of tasks.
 - d) Set-up costs.
10. Airlines charge different customers different prices for identical seats on the same flight. Yet in the airport, shops selling bottled water charge the same price to all customers. The reason that the shops don’t price discriminate like the airlines do is:
- a) Shopkeepers are more concerned with being fair to all of their customers.
 - b) Airlines face a downward sloping demand curve for their product.
 - c) Shopkeepers cannot prevent re-sale of their product.
 - d) Airlines enjoy significant economies of scale, while MES for shopkeepers is fairly small.

Answer each of the following questions in the space provided. Point values are indicated beside each question.

11. (5 pts.) What are the characteristics of the market for retail jewelry stores in central Athens? What kind of market structure is it?

12. (5 pts.) Why does it make sense for Volkswagen to buy rather than make tires?

13. (5 pts.) Why does it make sense for Toyota to stamp out its own body parts rather than buy them from another company?

14. (5 pts.) Goody's is considering opening two new restaurants. The first would be in a north Athens suburb and would serve primarily neighborhood customers. The second would be located along the major highway between Athens and Thessalonika, and would serve primarily travelers on the highway. Which restaurant would be a better candidate for franchising and which would be better for company ownership?

15. (5 pts.) Briefly explain how you would determine whether charter yacht owners in Italy and Turkey compete in the same economic market as Greek charter yacht owners.

16. (5 pts.) During the Olympics, fast-food restaurants in Athens and Piraeus made significant economic profits. Illustrate the revenue and cost conditions of a typical restaurant in the following diagram.

17. (10 pts.) In a Profit Possibilities Frontier diagram, illustrate (and briefly explain) the situation between Dell and Hewlett-Packard and label it point A. Illustrate (and briefly explain) the situation between Boeing and Airbus and label it point B. Illustrate (and briefly explain) the situation between Frontier Airlines and United Airlines in the Denver market and label it point C.

18. (10 pts.) Hotel de Christos currently is the only hotel serving a particular Greek island. It has 200 guest rooms and does a steady business. It generally stays pretty full, and occasionally is overbooked. You own some property close to this hotel, and are considering entering this market. Should you enter on a large scale or on a small scale? Explain why. What name would you apply to your strategy?

19. (10 pts.) Given what you know about the market for video game consoles, which characteristics might facilitate tacit collusion and which characteristics might make tacit collusion difficult?