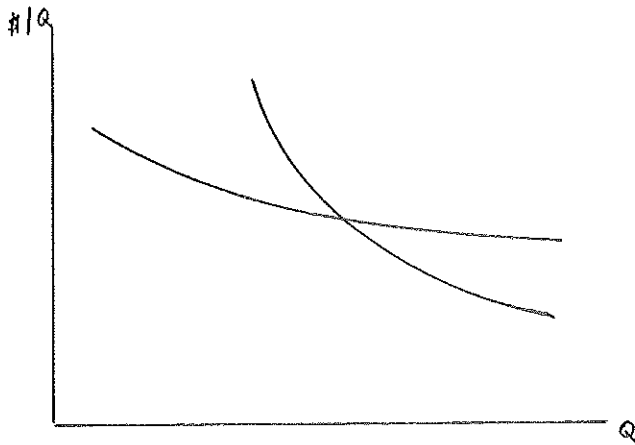


100 points total. Answer each question in the space provided. General advice: show your work, including any formulas or diagrams that you use in reasoning through your answers.

1. (10 pts.) Honda has taken a different approach in designing its East Liberty, Ohio plant than General Motors has in its Lordstown, Ohio production facility. The diagram below represents the LRAC curves associated with the two different plants. Which represents Honda's approach and which represents GM's approach? Explain why each LRAC is shaped as it is.



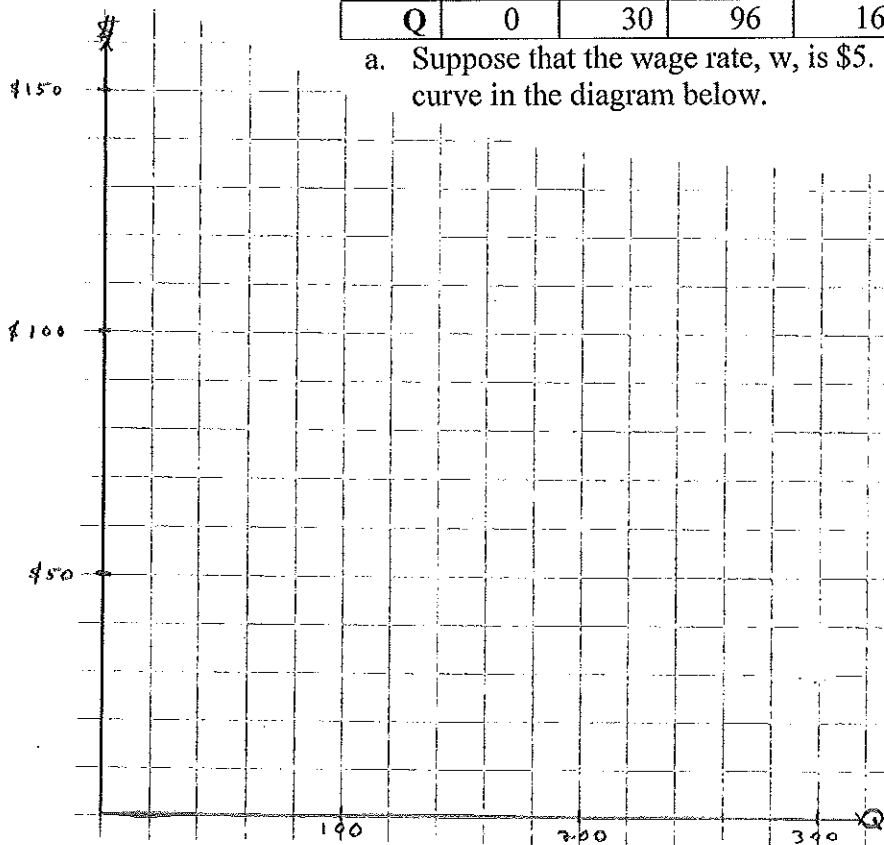
2. (9 pts.) Economists have estimated income elasticities for milk, restaurant meals, and flour. The numbers they have come up with are 1.41, -0.36, and 0.07 (not in the order of the products listed previously!) Which number do you think goes with each product? Briefly explain why you think that.

3. (6 pts.) If $Q=3$ then $AFC=\$33.33$. If $Q=4$ then $AVC=\$75$. If $Q=5$ then $TC=\$470$. What is TC if $Q=4$? What is AVC if $Q=5$?

4. (15 pts.) The following table describes the short-run production relationship for a firm that produces a single output, Q , with two inputs, L and K :

K	24	24	24	24	24	24
L	0	6	12	18	24	30
Q	0	30	96	162	192	150

- a. Suppose that the wage rate, w , is $\$5$. Sketch the firm's total variable cost curve in the diagram below.

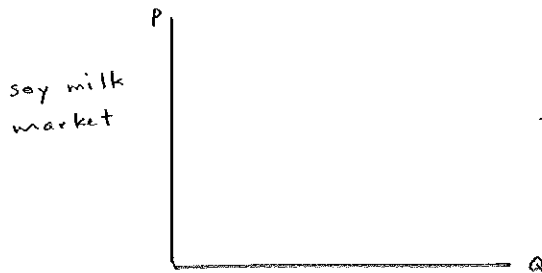
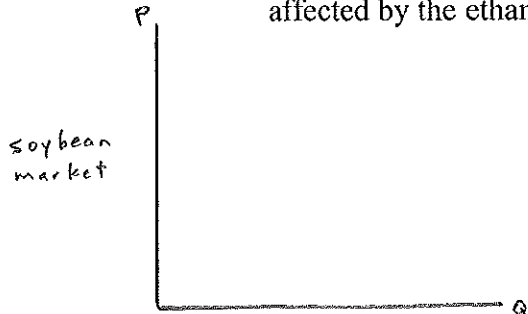


- b. Is this an example of decreasing returns to scale? Briefly explain why or why not.

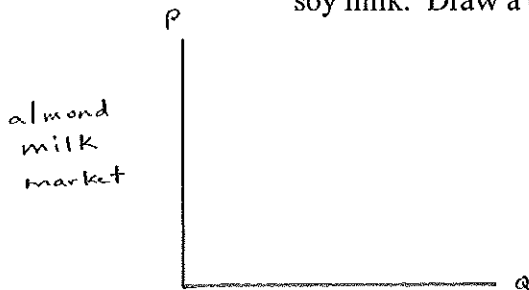
5. (10 pts.) You own and operate a video rental store. Currently you charge \$2 to rent a DVD for 24 hours, and on average rent 300 DVDs each day. Having experimented with price, you know that raising price by twenty-five cents causes rentals to fall by 50 per day, while lowering price by a quarter leads to an increase of 50 rentals per day. Calculate own-price elasticity of demand. Interpret the number that you have calculated, and recalling factors that affect own-price elasticity of demand, briefly explain why you might have gotten such an answer.
6. (10 pts.) Give an example of each of the four different types of relationship-specific assets.

7. (15 pts.) Your professor's younger sister owns and operates a sandwich shop in Fort Walton Beach, FL. The income statement for her business shows annual revenues of \$150,000. Costs include wages for hourly employees (\$35,000), utilities (\$15,000), wholesale cost of food and other supplies (\$40,000), taxes (\$5,000), advertising (\$5,000), and insurance (\$5,000). She quit her job managing a similar business where she earned \$25,000 per year, but she pays herself no salary in this business. She and her husband own the strip mall where her sandwich shop is located, and the space occupied by her shop previously rented for \$12,000 per year. They have \$40,000 invested in the business, which they could recover if they liquidated. They ask you to help them figure out the "rate of return" they are earning on their \$40,000 that they have invested in the sandwich shop. Evaluate the economic profitability of their business.
8. (5 pts.) For decades, Oracle Corp. and its CEO Larry Ellison pursued a horizontal strategy of providing business software to help companies run their operations more efficiently. Mr. Ellison and Oracle recently changed their strategy by acquiring another company. Whom did they acquire and what was the change in strategy?

9. (10 pts.) Soy milk is a popular substitute for cow's milk, especially for those who are lactose intolerant. The federal subsidy program for ethanol has increased the demand for corn and led to record high corn prices. Using supply and demand analysis, explain how higher corn prices affect the market for soybeans. Then explain how the market for a soybean-based product like soy milk is secondarily affected by the ethanol program. Illustrate your answers in the diagrams below.



- (5 pts.) What do you think will happen to the stock price of Blue Diamond, a large almond producer that markets its own brand of almond milk, a close substitute for soy milk. Draw a diagram that supports your answer.



10. (10 pts.) Toyota makes its own engines in a plant adjacent to the Camry assembly plant in Georgetown, KY. Toyota buys audio components from companies like Panasonic, JBL, and Bose. Explain why Toyota might pursue different make or buy strategies with engines than with audio equipment.