

Economics 380: Midterm 1

24 January, 2004

This test is open book. It is marked out of 100. You have 50 minutes. Good luck.

1. [30] Conduct a “five” forces analysis of Ford. As per usual you should say something about:
(a) Substitutes (inside and outside), (b) Buyers (and buyer bargaining power), (c) Suppliers
(and supplier bargaining power), (d) Rivals, (e) Entrants, (f) Complements.
2. [20] You are in charge of pricing the “Pirates of the Caribbean” DVD. How should the market be defined? Suggest four possible definitions.
3. [20] What is the difference between horizontal and vertical differentiation? Classify the following examples with a brief explanation.
(a) Conventional CRT monitor vs. Flat panel monitor.
(b) Playstation vs. XBox.
(c) Cheap inkjet printer vs. Expensive laserjet printer.
4. [15] North American car makers often lose money on their smallest cars. Why do they offer them?
5. [15] While there are exceptions, most large car makers have similar ranges of cars: a compact car, a midsize, a luxury etc. Why do you think car firms cluster around these standard sizes?