Economics 380: Midterm 2

7 March, 2005

This test is open book. It is marked out of 60. You have 60 minutes. Good luck.

1. [10] In 1995, Glaxo made a £9bn takeover bid for the Wellcome drugs company. Wellcome was worth a similar amount to six major drug companies, but Glaxo had particular synergies that made its valuation a little higher. While Zeneca and Roche were considering higher bids, they eventually declined, not wanting to pay the tens of millions of bidding costs. Wellcome eventually accepted the £9bn Glaxo bid. What strategies should the Wellcome shareholders have used to increase the takeover price? Explain how these strategies would work.

2. [12+8] (a) Consider the NutraSweet case, where the Holland Sweetener Co. entered the Aspartame market. At the time of entry, NutraSweet had meet–the–competition clauses with Coke and Pepsi, so that NutraSweet would have the option to retain Coke and Pepsi's business by meeting any rival bids. How does the meet–the–competition clause affect the profits of Holland? How would if affect the entry decision of Holland? Using our "taxonomy of business strategies", is this a direct or a strategic effect?

(b) While NutraSweet had meet–the–competition clauses with Coke and Pepsi, it did not have such clauses with smaller drinks companies. Given this, what entry strategy should Holland have followed? Why did NutraSweet not sign meet the competition clauses with the smaller drinks companies?

3. [10] If you buy a playstation game in Canada it will not work on a European playstation. Why does Sony build in this incompatibility? What factors affect the decision to make two countries systems incompatible?

4. [20] You run a coach company and have to decide what size of coach to buy. Each day you can rent a coach out for a price $p(q) = 500 - 10q$, where q is the number of seats. The coach has no operating cost, but must be scrapped after 250 days. When you buy the coach, the cost of x seats is $c(x) = 5000x$. What size coach should you buy?