

Economics 380: Midterm 1

12 October, 2005

This test is open book. It is marked out of 100. You have 60 minutes. Good luck.

1. [25] Conduct a “five” forces analysis of Google. 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. [25] You are the CEO of Zara. Your manager makes a number of suggestions. How do they fit in with the overall strategy?
(a) Subcontracting the manufacture of a new line of trousers to a specialist firm in Morocco.
(b) Hiring a star designer to make a new line of suits that will be the corner piece of your stores.
(c) Launching a childrens section.

3. [25] Consider the hotelling model where two firms, A and B, are located along a line $[0, 1]$ and choose prices simultaneously.
(a) Suppose A moves towards the centre (i.e. towards B). What effect does this have on prices? What effect does this have on B’s profits? What effects does this have on A’s profits? In equilibrium, where do you think the firms will locate?
(b) Suppose prices are exogenously fixed by a regulator. What happens to A’s profits as they move towards the centre? In equilibrium, where do you think the firms will locate?

4. [25] Holdup is due to lack of commitment. Holdup is due to incomplete contracts. Holdup is due to asset specificity. Which view is correct?