

## 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 Hewlett Packard. 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] Supermarkets often have a ‘10 items or fewer’ express counter. Why? Can you suggest any possible drawbacks of such a strategy?
3. [25] Gap and Banana Republic are owned by the same company (Gap Inc.).
  - (a) How are the two divisions differentiated?
  - (b) A manager at headquarters suggests to you that the two divisions should be merged, so that all shops sell all kinds of clothes. Discuss the pros and cons.
4. [25] A gadget manufacturing firm, Acme, would like new employees be able to use two computer programs:
  1. Acmesoft, which is only used by Acme in order to coordinate the ordering of gadgets.
  2. Excel, which is the usual Microsoft program and is used by every firm in the industry.Employees initially don’t know either program but can learn by taking various training courses for each program in their spare time. Should the firm offer to pay for the Acmesoft training courses? What about the Excel courses? Explain your answer.