



AMERICAN UNIVERSITY OF BEIRUT  
School of Business



Name: \_\_\_\_\_

Time: 1:45 hr

BUSS 305

FINAL EXAM

January 2003

Answer questions I, II and III then choose 2 of the remaining 3 questions:

I- (30 points) Multiple Choice: Circle the Right Answer. *lenr*  
1- All of the following are mechanisms which reduce adverse selection problem except:

- a) warranties from established enterprises with non-redeployable assets
- b) high interest rates
- c) large collateral requirements
- d) brand names and product-specific promotions and retail displays
- e) higher prices in repeat customer transactions

2- In the case of pure monopoly:

- a) one firm is the sole producer of a good or service which has no close substitutes
- b) the firm's profit is maximized at the price and out put combination where marginal cost equals marginal revenue
- c) the demand curve is always elastic
- d) a and b only
- e) a, b, and c

3- The practice by telephone companies of charging lower-long-distance rates at night than during the day is an example of:

- a) inverted block pricing
- b) second-degree price discrimination
- c) peak-load pricing
- d) first-degree price discrimination
- e) none of the above

4- A barometric price leader is:

- a) any firm in an industry
- b) always the largest firm
- c) always the smallest firm
- d) always the second largest firm
- e) always the oldest firm

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5- Which of the following is an example of an oligopolistic market structure?

- a) public utilities
- b) air transport industry
- c) liquor retailers
- d) wheat farmers
- e) none of the above

6- The largest problem faced in cartel pricing agreements such as OPEC is:

- a) detecting violations and quota barriers by cartel participants
- b) arriving at a profit maximizing price
- c) attracting participants in the cartel
- d) none of the above

7- The segmenting of customers into several small groups such as household, institutional, commercial, and industrial users, and establishing a different rate schedule for each group is known as:

- a) first-degree price discrimination
- b) market penetration
- c) third-degree discrimination
- d) second-degree price discrimination
- e) none of the above

8- Joint products are:

$$MRT = MC$$

- a) products which are technically independent in the production process
- b) exemplified by beef and hide from cattle
- c) products whose production processes are interdependent
- d) a and b
- e) b and c

9- \_\_\_\_\_ is a new product pricing strategy which results in a high initial product price. This price is reduced over time as demand at the higher price is satisfied.

- a) Prestige pricing
- b) Price lining
- c) Skimming
- d) Incremental pricing
- e) None of the above

10- To maximize profits, a monopolist that engages in price discrimination must allocate output in such a way as to make identical the \_\_\_\_\_ in all markets.

- a) ratio of price to marginal cost
- b) ratio of marginal cost to marginal utility
- c) ratio of price to elasticity
- d) marginal revenue
- e) none of the above

11- Which of the following is (are) a guideline(s) to be used in the estimation of cash flows?

- a) cash flows should be measured on an incremental basis
- b) cash flows should be measured on an after-tax basis
- c) all the indirect effects of the project should be included
- d) all of the above
- e) none of the above

12- In order to help assure that all relevant factors will be considered, the capital-expenditure selection process should include the following steps except:

- a) generating alternative capital-investment project proposals ✓
- b) estimating cash flows for the project proposals ✓
- c) reviewing the investment projects after they have been implemented
- d) allocate manpower to the various divisions within the firm
- e) a and d

13- Which of the following items is (are) not considered as parts of the net investment calculation?

- a) installation and shipping charges
- b) acquisition cost of new asset
- c) salvage value of old equipment that is being replaced
- d) first year's net cash flow
- e) c and d

14- The relationship between NPV and IRR is such that:

- a) both approaches always provide the same ranking of alternatives
- b) the IRR of a project is equal to the firm's cost of capital when the NPV of a project is \$0
- c) if the NPV of a project is negative, then the IRR must be greater than the cost of capital
- d) all of the above
- e) none of the above

$$\frac{C/F}{(1+k)}$$

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15- If the value of the U.S. dollar rises from DM 1.4 per dollar to <sup>>0</sup> <sup>>.k1</sup> DM 1.8 per dollar. <sup>\$ appreciates</sup>

- a) Imports of automobiles from Germany will decline
- b) American inflation will increase
- c) German exports of all traded good will decline
- d) American exports to Germany will decrease
- e) Sales by American manufactures for the export markets will increase

report ↑ exp ↓  
import ↓ export ↑

\$ DM  
1 → 1.8  
100 → 180  
100

100

II- Label each statement as T or F and defend your answer .

1. In Economics a theory is not judged by its simplicity or complexity of its assumptions but rather by its ability to explain and predict certain economic phenomena.
2. If a country can produce two commodities cheaper than one of its trading partners then it should specialize in the production of both commodities.
3. According to purchasing power parity theory if the dollar to the Yen is 120 yens/dollar and if average inflation rate over a decade is 8% in Japan and 4% in U.S.A then we expect the yen to be 110 yens/dollar now.
4. Full cost pricing is the best pricing practice under all economic conditions since it covers fixed costs + variable cost and a mark-up profit.
5. According to Herfindahl Index if the market consists of three firms A,B, and C with 45% , 40% and 15% respectively then HH index is 7000. HH
6. As matters stand now there is no single theory of oligopoly . Instead there are various models with various degrees of empirical validity
7. In project evaluation if gas stations and restaurants on a newly constructed highway realize higher revenues then this indirect benefit should be included in the study.
8. Regulated monopoly ~~monopoly~~ is defended on the grounds that it allows one firm to capture economies of scale and provide the service to community at low cost
9. If the interdependence quotient TRA is negative then the two goods A and B are complementary . → QB
10. If Gini coefficient of the Lorenz curve is 0.90 of country X then the distribution of income is equitable .

III- (20 points) The Lebanese Ministry of Petroleum is studying the possibility of constructing a new oil refinery other than Tripoli and Zahrani with a capacity of 500,000 Barrels per day. You are commissioned to conduct the feasibility study.

- Formulate an outline of the proposed feasibility study for the refinery ( 10 points)
- Which criteria will you use to select the optimal location of the new refinery? ( 5 points).
- In the light of the different schools of thought which one is more relevant in choosing the correct social rate of discount given the current deficit in the state budget in Lebanon and assuming that the refinery will be financed partly by issue of Treasury Bills and partly by a grant from the Saudi Government? ( 5 points).

pooing  
\*B  
part  
part

Choose 2 of the following 3 questions .

IV-(15 points) Explain how a Lemons market is generated in markets characterized by asymmetric information with the help of a diagram and a matrix

V- (15 points) A Japanese firm sells an electronic device in France and United States. Demand for product in the two markets are as follows:

2  
out of 3

$$P_1 = 10 - Q_1 \quad \text{U.S.}$$
$$P_2 = 6 - Q_2 \quad \text{France}$$

Total cost function is  $C = 4 + 2(Q_1 + Q_2)$

- A) (10 points) calculate  $Q_1, Q_2, P_1, P_2$  and total profit earned in the two markets
- B) (5 points) what are the conditions of successful discrimination as a pricing technique.

VI- (10 points) a) what are the determinants of exchange rate in the long-run?  
(5 points) b) how do you measure the deficit or surplus in the balance of payments of a certain country?