



**5015 Introduction to Management II (WT 2005/2006) – Retake Final Exam**

**Final Exam**

You will be able to make a maximum of 60 points. There are a few pieces of advice we can offer at this stage:

1. Use the theoretical tools and terminology you have learned in class and from the textbook.
2. Make sure there is a clear structure in your argument. (Use some time to sort your ideas before you start writing the version you want to submit.)
3. Use the time you have! If you are ready much earlier than we planned you should wonder if you forgot something.
4. Remember: people have to be able to decipher what you write.
5. Leave a margin for our comments, so we can give you a more detailed feedback than just the number of points.

Here is the set of problems:

Examiner: Prof. Dr. B. Wolff

**Please solve four (4) of the following five (5) problems (maximum of 15 points per problem):**

You are welcome to use a dictionary and a calculator.

**Problem 1: Multiple Choice**

Write the answers to each question on *this* problem sheet (which you will need to return with your answer sheet). For each incorrect answer, one point will be deducted for that particular question. If no solution is marked on this sheet, you will neither gain nor lose a point.

- 1) If incentive problems can be overcome, then it is in the interest of all parties to develop efficient solutions to agency problems. Through \_\_\_\_\_, there will be more wealth to be shared among contracting parties.  
 a) adverse selection  
 b) value maximization  
 c) contracting until marginal benefit (MB) equals zero  
 d) asymmetric information
- 2) An informal understanding about the quality of product components is a key to the relationship between most companies and their suppliers. This a good example of:  
 a) an implicit contract.  
 b) an explicit contract.  
 c) a principal/agent conflict resolution.  
 d) an adverse selection problem.

- 3) Inside the corporation there are \_\_\_\_\_ systems that motivate individuals and teams to make the most efficient decisions over products sales.  
 a) automatic administrative  
 b) automatic market driven  
 c) no automatic administrative  
 d) no
- 4) If D represents the level of decentralization of corporate decision making, then Benefits =  $B * D$  and Costs =  $A * D + C * D^2$ . The optimal level of decentralization occurs where:  
 a) Benefits = Costs  
 b) Costs are equal to zero  
 c)  $D = BD - Ad - CD^2$   
 d)  $D = (B-A)/2C$
- 5) Rapidly-changing technology and/or changing governmental regulatory environment always favors:  
 a) the U-form organization.  
 b) the M-form based on geography.  
 c) the matrix organization.  
 d) None of the above.
- 6) If a corporation operates two divisions that supply one another, and each division is located in a different country, then transfer prices:  
 a) are set to allocate profit to the low tax rate country.  
 b) are set to allocate all costs to the low tax rate country.  
 c) are set to allocate profit to the high tax rate country.  
 d) are not allowed between most countries.
- 7) If an executive exercises leadership through changing organizational architecture, then that manager will:  
 a) reallocate decision rights.  
 b) change the reward system.  
 c) restructure the performance evaluation system.  
 d) All of the above.
- 8) If property rights are very hard to assign and transactions costs are particularly high, then, given the Coase Theorem, externalities:  
 a) may reduce the efficiency of resource allocation.  
 b) would leave resource efficiency unchanged.  
 c) allow resource allocations to remain efficient.  
 d) have not relationship to efficiency.

*please turn* →

### Problem 2: Decision Rights

- Discuss the benefits and costs of lateral decision right assignment.
- What is meant by decision management and decision control?

### Problem 3: Incentive Problem

James works as a green keeper at a golf course. His utility function is  $U = I - e^2$ .  $I$  is his income for the period and  $e$  is the number of units of effort exerted. His reservation utility is €1500. The benefits James's employer has from James's effort are:  $B = €100e$ . The golf course offers James a contract that would pay him a part of his salary only if he provides a specified level of effort,  $\hat{e}$ . Explain your calculations and results.

- How much would the golf course need to pay James to get him to work as a green keeper?
- What is the optimal level of effort James should provide?
- What is the profit of the golf course when James provides the optimal level of effort?

### Problem 4: Market and Non-market Transactions

A fragrant producer is able to sell the same scent to shower gel and perfume producers. The fragrant producer faces competition at the shower gel market but has no competition at the perfume market. The demand for the scent at the shower gel market is  $P_S = 200 - 10Q$  and at the perfume market  $P_P = 400 - 20Q$ . The marginal cost of producing the scent is €20. Both end products use the same scent. Explain your calculations and results.

- What is the profit-maximizing price of the scent for the shower gel manufacturers?
- What is the profit-maximizing price of the scent for the perfume manufacturers?
- Discuss the arbitrage opportunity resulting from the example?
- How could the arbitrage problem be solved?

### Problem 5: Attracting and Retaining Employees

- Graph and explain an upward sloping earnings profile. Why do many people's age-earning profiles look like this?
- Discuss the advantages and disadvantages of promotions as tournaments.

Please return this Problem Sheet with your Answer Sheet!

Good Luck!