



5015 Introduction to Management II (WT 2007/08) –Retake

Examiner: Prof. Dr. Wolff

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:

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Please solve four (4) of the following six (6) problems (maximum of 15 points per problem):

(You are welcome to use a calculator.)

1. Definitions

Define the following terms. Provide examples to illustrate your definitions.

- a) Consumer Surplus
- b) Complements
- c) Supplier Power
- d) Moral Hazard
- e) Ratchet Effect
- f) Elastic Demand

2. Ethics

- a) What is CSR? Which trade-offs have companies to consider with respect to CSR-related policies and activities? Explain two possible corporate strategies to overcome these problems.
- b) Morally incorrect behaviour in companies is a problem of an unbalanced organizational architecture. Explain and discuss critically.

3. 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.

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

4. Incentive Conflicts and Contracts

The Department of International Management at the Otto-von-Guericke-University wants to hire a student research assistant to help with the administration of the web sites. The department's marginal benefits of hiring the student are 20-2L. The marginal costs for the hired student are 10 money units per an hour.

- a) What is the value-maximizing amount of hours the student should work?
- b) What is the total surplus from the trade?
- c) What are potential information problems before and after hiring a student? How can these problems be solved?

5. Attracting and Retaining Employees

a) Draw a graph to show the trade-off between salary and benefits. Show the employee's indifference and the firm's isocost curves. Label the equilibrium salary/benefits combination. Discuss what happens if the firm's payroll taxes rise.

- b) What are internal labor markets and what are their benefits and costs?
- c) Name and explain the different ways to enhance employee motivation through pay in long-term labor relations.

6. Decision Rights

Suppose the benefits, B, from decentralizing decision-making can be expressed by the equation $B = €300 * D$, where D represents the degree of decentralization. The cost, C, of decentralization can be represented by $C = €200 * D + 2.5 * D^2$.

- a) Calculate the optimal level of decentralization.
- b) Outline the benefits and costs of decentralization.
- c) What are the trade-offs to consider when deciding between centralized or decentralized decision making (management implications)?
- d) Discuss the trade-offs involved with enlarging student study groups from around five people to ten people. Consider the benefits and costs of team decision making for this example.

Good Luck!