Module 5 Exam: Strategy, Global Business, & Entrepreneurship

Instructions

- This is an exam—please do not talk.
- Your books and notes must be put completely away, out of sight.
- Do not open the exam until you are told to begin.
- Keep the questions when you leave.
- You need a Scantron 882 ES or E and a #2 pencil; if you are without either, raise your hand.
- While you are waiting to begin, enter the following on your Scantron:

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Name: Last (family) name, First name Middle initial
Subject: Your student identification number
Test No.: (A, B, C, or D) 
[That is, the test version.]
Date: 5 (i.e., the module number)
Hour: Your section number
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1. The fundamental equation stated: Quality of Outcome =?
   A. Quality of Thought $\times$ Quantity of Time.
   B. Quality of Personnel $\times$ Quality of Market.
   C. Markup $\times$ Quantity Sold.
   D. Quality of Thought $\times$ Quality of Execution.

2. Product differentiation ...
   A. ... makes intra-firm rivalry fiercer.
   B. ... makes intra-firm rivalry less fierce.
   C. ... leads to price wars.
   D. ... leads to cost cutting.

3. Which of the following is not a barrier to entering into the personal computer industry with a new machine using a proprietary operating system?
   A. Significant economies of scale.
   B. Importance of reputation.
   C. Ready supply of computer hardware components (e.g., disk drives, power supplies, etc.).
   D. Network effects.

4. A duopoly in which the firms have equal market share is an industry with a Herfindahl index of what?
   A. 5000.
   B. 2500.
   C. 1250.
   D. $-3.141592$.

5. Apple’s current strategy with respect to the Mac is primarily aimed towards selling Macs to which segment?
   A. Middle-class and up individuals and students.
   B. Lower-income individuals and students.
   C. Industry.
   D. Elementary schools.

6. Under the AURA model, if your firm has a resource that is advantageous, but not unique, then a relevant strategic issue is?
   A. Determining if the resource provides you an absolute or comparative advantage.
Figure 1: A game between Row, Inc. and Column Co. Payoffs are in millions of dollars. (Figure for Question 9.)

B. Is your firm able to exploit the resource and, if not, how does your firm fix that?
C. Is your firm locked in to that resource and is it, thus, vulnerable to holdup?
D. Determining how to get rid of the resource as quickly as possible.

7. An incumbent firm sells to a number of market segments. It must charge the same price to all segments. An entrant comes and targets just one segment. The entrant undercuts the incumbent on price, but the incumbent is reluctant to match the price cut because it will lose profits from the non-targetted segments. The entrant has utilized what strategy?

A. Judo strategy.
B. Karate strategy.
C. Ninja strategy.
D. Samurai strategy.

8. An advantageous resource or asset is most likely to provide a long-term strategic advantage if it is?

A. Common and replicable.
B. Unique and not replicable.
C. Common and not replicable.
D. Unique and replicable.
Figure 2: A game between Row and Column. (Figure for Questions 10 and 11.)

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9. Consider Figure 1. The payoffs and strategies are listed in the usual way. The firms play once and each is deciding whether to expand capacity or not. In the equilibrium of this game, the payoffs to the firms are?

A. Each firm gets $10 million.
B. Row, Inc. gets $12 million and Column Co. gets $5 million.
C. Each firm gets $12 million.
D. Each firm gets $8 million.

10. Consider Figure 2. The payoffs and strategies are listed in the usual way. The game is played once. In that game, the strategy center is what?

A. A best response for Column.
B. An entry strategy for Column.
C. A dominant strategy for Column.
D. A dominated strategy for Column.

11. Consider Figure 2 as described in Question 10 again. The strategies played in the Nash equilibrium of the game are?

A. Down and right.
B. Center and middle.
C. Up and left.
D. Middle and left.
12. Which of the following is not a condition for firms to be in the Bertrand trap?

A. The firms have severely limited capacity.
B. The firms produce a homogenous, non-differentiated product.
C. Consumers know all prices being charged.
D. The firms play myopically, ignoring future considerations.

13. Low-price (meeting-the-competition) guarantees are a way for retailers to avoid the Bertrand trap because?

A. They encourage price competition.
B. They differentiate the products being sold.
C. They cause consumers to search less to find the lowest price.
D. This is not a way to avoid the Bertrand trap.

14. People are often busy, so they fail to check which store (assume only two exist) has the lower price. Suppose 80% of the time they check the prices and go to the less expensive store. Twenty percent of the time, however, they are too busy and they pick one of the two stores randomly (with equal probability). In other words, 10% of the time, a consumer ends up in the more expensive store. The two store owners know all this. Based on this we know what about prices in equilibrium?

A. This is still the Bertrand trap; price equals unit cost.
B. Price is indeterminate given the information available, but each store will definitely charge more than unit cost.
C. Price will equal 10% of unit cost.
D. Price will equal 80% of unit cost.

15. Playing non-myopically—that is, taking account of their repeated interactions—allows firms to avoid the Bertrand trap provided what?

A. The interest rate is low enough (below some threshold) and the probability of continuing to interact is high enough (above some threshold).
B. The interest rate is high enough and the probability of continuing to interact is high enough.
C. The interest rate is low enough and the probability of continuing to interact is low enough.
D. The interest rate is high enough and the probability of continuing to interact is low enough.

16. For a variety of reasons, the return on euro-denominated securities fall. As consequence, which of the following will ultimately happen?
A. European exports to the US will decrease.
B. European exports to the US will increase.
C. The US current account deficit vis-à-vis the European Union will shrink.
D. The US capital account surplus vis-à-vis the European Union will shrink.

17. When doing business on behalf of an American company in a foreign country with rampant bribery you are prohibited from bribing foreign officials by what?

B. The Foreign Corrupt Practices Act (FCPA).
C. The General Agreement on Tariffs and Trade (GATT).
D. Nothing, it is perfectly legal under US law for a representative of a US company to bribe a foreign official.

18. In Syldavia (a country), one unit of resources can produce 20 yards of linen or 2 toasters. In Borduria (another country), one unit of resources can produce 8 yards of linen or 1 toaster. From these facts, we know?

A. Syldavia has a comparative advantage in both linen and toasters.
B. Syldavia has a comparative advantage in toasters, while Borduria has a comparative advantage in linen.
C. Syldavia has a comparative advantage in linen, while Borduria has a comparative advantage in toasters.
D. Borduria has an absolute advantage in both linen and toasters.

19. In Duben (a country), one unit of resources can produce 100 coffee mugs or 10 picture frames. In Kveten (another country), one unit of resources can produce 80 coffee mugs or 5 picture frames. From these facts, we know?

A. the cost of mugs in terms of frames is 0.1 frames/mug in Duben and 0.0625 frames/mug in Kveten.
B. the cost of mugs in terms of frames is 10 frames/mug in Duben and 40 frames/mug in Kveten.
C. the cost of frames in terms of mugs is 0.1 mugs/frame in Duben and 0.0625 mugs/frame in Kveten.
D. the cost of mugs in terms of frames is 0.1 mugs/frame in Duben and 0.0625 mugs/frame in Kveten.

20. In the US, firms die at roughly what rate?

A. A quarter the rate at which they are born.
21. Compared to a sole proprietorship, the owners of a C corporation . . .
   A. . . . face greater liability, but have more control of the enterprise.
   B. . . . face greater liability and have less control of the enterprise.
   C. . . . enjoy limited liability and have more control of the enterprise.
   D. . . . enjoy limited liability, but have less control of the enterprise.

22. A venture capital firm might do all of the following, *except*
   A. Provide capital to a startup.
   B. Demand seats on the board of a startup it is financing.
   C. Provide assistance in terms of consulting or finding a management team.
   D. Underwrite a startup’s initial public offering (IPO).

23. The dimension you least want to compete on is?
   A. Quality.
   B. Reputation.
   C. Price.
   D. Time.

24. The interest rate ($r$) is 10%. Let $F$ be the number of firms in an industry that satisfies the conditions of the Bertrand model (except the firms recognize their interaction is infinitely repeated). What is the largest number of firms, $F$, that can sustain a cooperative outcome in the infinitely repeated game in which the monopoly profits are divided among the firms into $F$ equal shares? [You may find it convenient to recall that the present value of $x$ received today and forever after is]

\[ x + \frac{x}{r}. \]

You may also find it convenient to recall that if

\[ x = \frac{x}{y} + \frac{x}{y} \times \frac{1}{r}, \]

then

\[ y = 1 + \frac{1}{r}. \]

A. 11.
25. A consequence of consumers’ caring more about the differences between your product and that of your one competitor is?
   A. Price competition between the two of you will be fiercer.
   B. The more mired you will be in the Bertrand trap.
   C. The greater your profits will be in equilibrium.
   D. It doesn’t matter to your strategy nor your profits how much consumers care about the differences between your product and your rival’s.

26. This is version A. Write A on the identification section of your Scantron and bubble in A for this question.