

GPEM—Business Economics—Final Exam—Winter 2006

Name _____

Date: 20/03/06

Time: 17.00 to 18.30

Important:

- Do not use reverse pages
- Think hard and write as little as possible.
- Wrong and irrelevant answers will be graded with negative points.
- Points for each question in parentheses.

1. Please, evaluate your class participation between 0 and 10 (maximum 10 points of a total of 100. Your input will used only as a reference)

Guidelines: minimum, 0, full attendance with a few comments;
maximum, 10, substantial, positive and frequent participation:

2. Concepts (10 points in total, graded “all or nothing”: 3 right answers required)

Explain clearly the following concepts and provide an example for each of them.
Be concise. More than enough space is given.

a) *Externality*

Concept:

Example:

b) *Double marginalization*

Concept:

Example:

c) *Adverse selection*

Concept:

Example:

3. Write a short essay (better if in PowerPoint style, using an outline with “bullets”) on “How to Use Evolutionary Psychology in Management and Institutional Design” (20 points). Advice: *For this and other complex questions WRITE THE OUTLINE in the last page before answering.*

4. Tips (15)

In some bars and cafeterias, waiters divide in equal parts the total amount of tips to share them, while in other bars and cafeterias each employee keeps the tips received individually. Explain under which conditions each of these two systems is more likely to be found.

5. Why is the Boss so cheap? (15)

In 1992 Bruce Springsteen gave a huge concert in the Olympic Stadium of Barcelona: a crowd of 60.000 people were then willing to pay Pta 4,000 (around 25 USD) each for each ticket. In the Spring of 1996 Bruce Springsteen came again to Barcelona. Tickets for attending one of two concerts in the small Tivoli theater (with a capacity of 3,000 seats) were sold for ptas. 5,000. Tickets were put on sale in some disk stores, but that was unknown to the public until 15 minutes before they were put on sale, when they announced the points of sale in a radio station. Long queues formed in minutes to purchase the tickets.

Keeping in mind that some other singers have made similar policies, which are also common in sports events, analyze the case tackling at least the following questions:

a) Do you think this an optimal pricing policy? Why?

b) Explain the conditions that can make such underpricing a sensible policy in a given industry.

6. Withholding taxes (10)

Using some of the models of human rationality, analyze these features, common of many income tax codes:

(a) Most of the taxes to be paid are collected by income payers (employers, banks) by withholding an estimation of the tax due by the taxpayer before the net income tax is paid to the taxpayer, instead of paying the taxpayer the gross income and having him or her paying the precise tax due afterwards.

(b) Tax withholding is structured usually in such a way that most citizens get a positive refund or tax rebate once a year.

7. Overbooking (10)

Three questions: (a) Provide a rationale for the practice of overbooking.

(b) Define and compare different regulatory regimes.

(c) Explain briefly the newest EU regulations. How do they differ from the previous ones?

8. Curbstoners (5)

Please explain in terms of moral hazard and/or adverse selection the existence of “curbstoners.” In particular, why are they treated as cheaters?

“Private owners usually sell their used cars through newspaper ads. You may find a well-maintained car selling for less money than you would pay a dealer. If you buy a used car from a private owner, ask for the car’s maintenance and repair records and, if the seller is the first owner, for records of the original purchase. Also, check the title to make sure the person selling the car is the legal owner.

Note: Be wary of fraudulent, criminal dealers, commonly known as ‘curbstoners,’ who offer vehicles through newspaper ads and may disguise themselves as individual sellers. The cars offered may be stolen or damaged, and their odometers may be rolled back.”

9. Eating in Paris (5)

It is claimed that: “The moral hazard concept explains, for example, why many restaurants in the tourist zone of Paris offer food with lower than expected quality: the transitory character of consumption prevents reputation from having an important role in the transaction” (Tirole, 1988, p.107). Which arrangements can be expected to appear in order to solve the problem described by this prominent French economist?

WRITE YOUR DRAFTS BELOW THIS LINE AND IN THE NEXT PAGES
IMPORTANT: Text written below this line will never be considered in the grade

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