Name_____ AREC 315
Fall 2005

Quiz #2 (Individual)
(100 Points)

Read each question carefully. Answer each question completely and concisely. Use the appropriate diagrams, graphs and/or equations when they are asked for or when they help you in answering the question. Show all your work (i.e. calculations) in order to receive full credit. Manage your time wisely.

(15 pts.) 1. Economies of speed represents a key strategic concept in determining the competitiveness of a particular company.

a. Illustrate with a single diagram learning curves for two firms (A and B) where for a period of time firm B has a cost advantage over firm A but this advantage is lost after a certain level of cumulative production is reached because firm A is "a quick learner."

b. What is the difference between a learning curve and an experience curve?

c. Briefly discuss two characteristics of a learning organization. Give a practical business example of each characteristic.

(25 pts.) 2. Use the elasticity handout that was handed to you for this exam. Please define and select an example of a:

a. Normal Good

b. Inferior Good

c. Elastic Demand

d. Substitute Goods

e. Complementary Goods

f. Inelastic Demand

(10 pts.) 3. Suppose there is a burger war surrounding the UA campus. The manager of McDonalds knows that if she lowers the price of her Big Mac from $1.99 to $1.50 her decision will reduce the number of Burger King Whoppers purchased in a day form 1,000 to 800. What is the cross-price elasticity of demand in this burger war? In words explain what your answer means. Why are cross-price elasticities important information in formulating competitive strategy?

(10 pts.) 4. Suppose that over the period of 1995 to 2004, the per capita income in China increased from $2,500 to $5,000 and the per capita consumption of chicken rose from 15 pounds to 35 pounds. What is the income elasticity of demand? What does this number mean? Why would Foster Farms, a major producer/marketer of chicken in the U.S., be interested in this number?

(10 pts.) 5. Managers are concerned about the impact changes in the price of their products have on the total revenues of their businesses. Using your knowledge of own-price elasticity of demand, please explain why it is important to know if the business is in the inelastic or elastic portion of its demand curve.

(10 pts.) 6. Time is a valuable input in a production process. Given a certain number of hours, some people are more productive than others. Suppose the output from a production process is the number of sales calls made and the input variable is time. Please answer the following questions.

a. What is a production function?

b. Suppose Tim is a more productive caller than Steve. In one graph, use two production functions to illustrate the higher productivity of Tim.

(10 pts.) 7. a. In your own words, please describe the consumer optimizing behavior that is the foundation for generating demand curves. Key words you will want to use are budget constraint, preferences, utility, maximization, etc.

b. Draw a graphical model that captures what you described in "a" above.

(10 pts.) 8. Briefly define the four utilities produced by the marketing process (from the perspective of an economist) and give a specific business example of each.