SEMESTER EXAM 2026

ABERYSTWYTH BUSINESS SCHOOL

AB23320: Managerial Economics

Time allowed: **THREE HOURS**

Answer THREE questions

CALCULATORS ARE PERMITTED (Casio FX-991, FX83 or FX85 models only)

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STUDENTS MAY SUBMIT ANSWERS TO THIS PAPER IN EITHER WELSH OR ENGLISH OF THE MODULE

Once seated, students may complete the front cover of the answer book(s) and the attendance slip ONLY.

DO NOT TURN THE EXAMINATION QUESTION PAPER OVER UNTIL INSTRUCTED TO DO SO.

Question 1:

a) Explain the efficiency-based reasons for firms' diversification (50)

b) Explain the managerial reasons for firms' diversification (50)

Question 2:

a) Considering the property rights view of the firm, explain why should it matter which party has the residual control rights in a firm? (60)

b) Universities tend to be highly integrated – many departments all belong to the same organization. Provide arguments why Universities do not consist of freestanding departments linked together by contracts. (40)

Question 3:

a) Explain why Ronald Coase believed that the defining characteristics of the firm was the suppression of the price mechanism. (50)

b) The Nexus of contracts theory of the firm proposes that the firm is a collection of contracts. In what way does the firm differ from the market? How would you critique the Nexus of Contracts view of the firm? Explain your answer. (50)

Question 4:

The firm is deciding whether to produce an input in the production process internally or buying this input from the market.

1) Outline the factors the firm must consider in its decision-making. (50)

2) What other options are available to the firm falling between the extremes of arm's length market transactions and producing the input internally? Explain your answer. (50)

Question 5:

a) Outline the various approaches to encourage innovation. Explain their strong and weak points. (60)

b) Using a diagram, show that firms engaged in innovative activities are operating on the downward sloping section of their Average Cost curves. Explain why that may be the case. Discuss the implications of this assertion. (40)

Question 6:

a) Using a diagram, explain the incentive the cartel members have to cheat on the cartel agreement (40)

b) Explain the methods cartels use to detect cheating on the cartel agreement. (60)

END OF PAPER