

**UNIVERSITY OF COLOMBO, SRI LANKA**  
**FACULTY OF MANAGEMENT AND FINANCE**

**Bachelor of Business Administration (Level II – Semester VII)**

**Examination July 2017**

**BEC 2211 – Economics of Organizations**

**Two (02) hours**

**Answer Four (04) Questions Including Question One (01) and Two (02).**

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1. i. Briefly explain the behavioural assumptions of transaction cost economics. (04 Marks)
- ii. 'The normative requirements of a clan are the greatest out of all the three governance structures'. Discuss the validity of the above statement. (07 Marks)
- iii. Firms C and D are considering whether to advertise or not. The following table shows the returns from advertising (A) or not advertising (N) of the two firms.

|   |   | D     |       |
|---|---|-------|-------|
|   |   | A     | N     |
| C | A | 40,40 | 60,30 |
|   | N | 30,60 | 45,48 |

What would be the outcome and your observations in the above if both firms do not communicate? How would the outcome change if both firms can communicate?

(06 Marks)

- iv. Briefly explain the limitations of the Bain/Mason paradigm of industrial organization.

(10 Marks)

v. As per Alchian and Demsetz state the powers that a monitor should be given.  
(05 Marks)

vi. Briefly explain how the VRIO framework determines the nature of competitive advantage obtained by a firm.  
(08 Marks)

**(Total 40 marks)**

2. Mr. A has been involved in making confectionaries. He sells these to bakery outlets in the city. He has following four (04) contracts which he is thinking of entering. Using transaction cost economic principles, advise him with justification on what governance mechanism best fits each transaction.

i. Mr. B who runs a bakery nearby to which Mr. A supplies his food items. Mr. B is facing difficulties in running the business.  
(05 Marks)

ii. Mr. C who is a chef from a reputed hotel who will provide advice to Mr A.  
(05 Marks)

iii. Mr. D who runs an accountancy firm to prepare payroll of the employees.  
(05 Marks)

iv. Mr. E who will be hired to make doughs for baking.  
(05 Marks)

**(Total 20 marks)**

3. i. Briefly explain two facilitating pricing practices an oligopoly firm can adopt.  
(04 Marks)

ii. 'Capacity expansion is always more effective as a threat compared to limit pricing'. Do you agree with this statement? Justify your answer.  
(10 Marks)

iii. Explain three factors that would make it difficult for a firm to imitate a resource owned by another firm.  
(06 Marks)

**(Total 20 marks)**

4. i. Briefly explain factors that determine the agency cost of equity. (06 Marks)
- ii. Briefly explain what is meant by the metering problem in organisations. (06 Marks)
- iii. Briefly explain the performance evaluation problem in organisations. (04 Marks)
- iv. Briefly explain the two types of agency problems in organisations. (04 Marks)
- (Total 20 marks)**

5. i. Briefly explain the characteristics of goals as per Cyert and March. (08 Marks)
- ii. Using an appropriate example show how a property rights solution to an externality will be more effective than a government intervention or regulation. (12 Marks)
- (Total 20 marks)**
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