

Midterm Examination

Economics 139A

June 5, 2008
Version B

Abstract

This examination is a **closed-book** examination. You should not need any tools beyond a pencil or pen to write the answers. Calculators, cellphones, and other devices with memory are prohibited. When a problem asks you *to compute*, or *to show how to compute*, determine the appropriate formula, and substitute the numerical values from the problem into the formula.

When a question seems to ask for a yes/no answer, *most credit* depends on the explanation for your choice. For example, when the question asks, “Is this market elastic?,” a satisfactory answer will look like, “Yes, because the market’s elasticity is less than the critical value of -1.” Unless asked explicitly, you don’t need to explain what an “elasticity” is for this kind of question.

Please write your answers directly on this examination paper. Don’t forget to write your name and student number on this page, *and your student number on each sheet* (booklets occasionally do come apart in transport). If you need extra space for answers, feel free to use the back of the last page. Clearly mark answers that have been continued on a different page.

Do not open this examination booklet until instructed to do so.

3. What **characteristics** make the construction industry a potentially profitable target for *web-based B2B efficiency enhancement*? How can **firms** in this industry *benefit from e-commerce interaction*? Do you think **consumers** will *capture some of those benefits*? Explain your reasoning for each answer.

4. Define **digital cash**. Explain what aspect of “pure” digital cash is lacking from the *digital cash* provided by PayPal and similar electronic payment systems.

5. Explain the concept of a physical **nexus** in the law, which determines when a state may levy *sales tax* on an e-commerce transaction. Is this rule **more favorable** to “clicks-only” e-retailers, or to “bricks & clicks” e-retailers? **Briefly explain** your answer.

6. What is the **populist myth** about the Internet? Briefly explain how it **captures an important truth** about the Internet, but when taken to extremes **becomes a myth**.

9. **Amazon.com** is often cited as a successful first mover. Do you believe Amazon possesses a **lasting first-mover advantage**, or is it simply a well-managed early entrant that has come up with a string of *sustaining innovations*? Explain. Give an example of **an important Amazon advantage** in the market, and explain why it supports your belief (*i.e.*, show that it is a *genuine first-mover advantage*, or alternatively that it is a *sustaining innovation* that rivals can imitate well enough to compete in the long run).
10. Define **informational advertising**. Explain briefly how it can be used to advantage by an e-retailer. Describe briefly one example of *informational advertising* in e-retailing.

For extra credit, you may choose *one* of the following *two* questions (each occupies a full page) and answer it.

1. Reflect on your experience with *distance learning* technology and other Internet-based aspects of the educational environment at UC Santa Cruz. Do you think the University should focus most on
 - “bricks,” *i.e.*, enhancing the conventional delivery of educational service on campus to its students, **or**
 - “clicks,” *i.e.*, taking advantage of the technology to deliver content in new forms and streamline administrative aspects of the educational programs, **or**
 - “bricks & clicks,” *i.e.*, better integrate its conventional educational programs with its existing network infrastructure.

Any answer is “correct.” Choose one, and *based on what you have learned about the theory and practice of e-commerce* **give the most important reason** why you believe that is the most productive way to improve UC Santa Cruz. Then **give one concrete experience** you have had at UCSC (no course numbers or faculty names, please!) illustrating your argument.

2. What is “the” **digital divide**? (Define it.) Do you believe that there is an aspect of “digital divide” that has important consequences for the members of UC Santa Cruz community? If so, explain what it is and why you believe it is important to the community. If not, explain why it has not developed (in terms of factors like “university policy,” “socioeconomic level of the community,” *etc.*). What policy would you advocate to address the problem of the *digital divide*?