

UNIVERSITY OF TORONTO AT SCARBOROUGH
MGTA03 - INTRODUCTION TO MANAGEMENT I

Mid-Term – Friday, November 5, 2010

SHORT ANSWER QUESTIONS

Family Name _____ (Please print) First _____
Student # _____ Lecture Section: Mon Tue Thur

1. Please write all answers in **PEN** and as clearly and neatly as possible. If you need additional space, turn the pages over and write on the back of the sheet.
2. Make sure your name, student number and lecture number are correctly entered, above.
3. Failure to accurately follow instruction 2 **will cost you 5 marks!**
4. You **must** answer Question 1 **and** 2. Then, you write **either** Question 3 **or** 4.
5. You have **90 minutes** to write the exam.

Do not write below – for marking purposes only.

Question 1 _____ / 8

Question 2 _____ / 7

Question 3 _____ / 10

Question 4 _____ / 10

SAQ Total _____ / 25

You must answer **Question 1** and **Question 2**.

Question 1

(8 marks)

The Canadian Dollar is now equal to approximately UK£0.61 (61 British pence) and also equal to US\$0.98 (98 American cents). Assume that over the next year the Canadian Dollar will change in value to be worth UK£0.50 and worth US\$1.10. What would you expect to be the effect upon the following: (Explain and justify all of your answers).

1. Canada's balance of trade with the United Kingdom? 2 marks

If the value of the Canadian dollar goes from being worth UK£0.61 (61 British pence) to UK£0.50 over the next year, the Canadian dollar is **depreciating**, i.e. it is worth **less**.

The weaker Canadian dollar will make it **more expensive** for Canadian businesses and Canadian consumers to buy products and services which are made in the UK.

Therefore, we **will probably buy fewer British cars**, fewer wool sweaters, and less Scotch whiskey. Possibly we will, instead, buy more Canadian made cars, Canadian made clothes, and Canadian whiskey.

Conversely, the pound **sterling (UK£) is stronger**. UK£1 can buy more in Canada. Therefore, business and consumers living in London, Glasgow, Liverpool etc. will probably buy more Canadian goods and services. **The British will import more Canadian maple syrup and more Canadian-made hockey sticks.**

Because we can afford to import less from them, and the British can afford to import more from us Canada's **balance of trade with the UK** (at the moment, slightly negative) **will improve, i.e. the deficit will get smaller**. The deficit might become a surplus.

More Canadians will find more work making maple syrup and hockey sticks for export to the UK market.

2. Canada's balance of trade with the United States? 2 marks

If the value of the Canadian dollar goes from being worth US\$0.98 (98 US cents) to US\$1.10 over the next year, the Canadian dollar is **appreciating**, i.e. it is becoming worth **more**.

The stronger Canadian dollar will make it **less expensive** for Canadian businesses and Canadian consumers to buy products and services which are made in the US. Therefore, we will probably **buy more US cars, and more US-made hot dogs**.

Conversely, the US\$ is **weaker**. **US\$1 can buy less Canada**.

Therefore, business and consumers living in New York, Boston and Chicago will probably buy fewer Canadian goods and services. **The US will import less Canadian maple syrup and fewer Canadian-made hockey sticks**.

Because **we can afford to import more** from them, and the Americans can afford to import less from us **Canada's balance of trade with the US (already slightly negative) will get worse, i.e. an existing deficit will get larger**.

3. Canada's overall balance of trade? 4 marks

Canada trades significantly more with the US than it trades with any other country. Our exports to the **US typically represent about 70% of all of our exports**. The US is the source of about **60% of our imports**.

The UK is a significant trading partner to Canada, but the scale of trade to the UK Britain is dwarfed by the scale of our trade with the US. **We trade 20 – 30 times as much with the US as we do with the UK**.

In the scenario above: While a weaker Canadian dollar (relative to the UK£) means our balance of trade with the UK is likely to improve, this will be **hugely offset by a deterioration in our balance of trade with the US**.

While a few jobs may be created in firms that export primarily to the UK, the scenario above (the Canadian dollar weakening against the pound, but strengthening against the US\$) would be **bad for Canadian business and bad for the Canadian economy**.

You must answer Question 1 and Question 2.

Question 2

(7 marks)

A recent survey noted that Luxembourg is the world's most productive economy. Norway placed second. The United States ranked 5th and Canada ranked 11th.

- a) What makes the economy of one country more productive than the economy of another? (2 marks)

Productivity is a ratio. The productivity of a country is measured by **dividing the aggregate output of an economy (GDP) by the population (GDP per capita) or the number of workers (labour productivity).**

A productive economy will have cheaper, easier, and more abundant access to more and better factors of production. In other words, a productive economy will have:

capital - lots of money with which to buy newer, better, more sophisticated technology
labour – lots of well educated, highly trained, hard-working, efficient and skilled people
resources – lots of easy to obtain, and valuable, natural resources

Finally, a country will have a society, culture or political climate that encourages the creation of businesses, rewards entrepreneurs, and makes it easy for people to start, operate and grow their businesses (entrepreneurial climate).

- b) Suggest some reasons why Luxembourg would be the highest ranked economy.
(2 marks)

Although a tiny country with limited natural resources, Luxembourg is located in the very middle of Western Europe. With easy transportation links to the major capitals and financial centres of Europe, Luxembourg has set itself up as a banking and financial centre.

Luxembourg therefore attracts many of the brightest and best educated bankers, lawyers, accountants, and other highly educated professionals. The organisations they work for need to have the most modern and efficient technology for banking, investing, and foreign exchange trading.

Luxembourg's GDP per capita is very high (i.e. it is "productive") because, included in its relatively small workforce is a disproportionate number of bankers, lawyers, economists, and accountants. These highly educated, highly trained people have access to some of the finest technology in the world, and deal with huge sums of money making very large profits.

- c) Why would Canada rank below the United States in productivity? (3 marks)

The simple theoretical answer would be that Canada (Canadian business) has less access to, or make less effective use of the various factors of production.

More specifically, our people are no lazier or more stupid, but perhaps our workers receive less on-the-job training and development.

Perhaps our workers have access to slightly less sophisticated or modern technology (e.g. a greater proportion of American workers might be supplied with laptops, Ipads and smartphones.)

Distance, climate and geography probably play a role: our businesses are spread further apart. For example, it may take longer to transport things from St. John's, Newfoundland to Vancouver than it does to transport things from New York to Boston or Chicago. Bad weather may close our airports, shut down our railway lines and block our highways more frequently than in the United States. Thus, even if our airports are shut down for an extra one or two days every year, our businesses incur greater expenses relative to what they produce, take longer to transport products to market, and wait longer for parts and equipment to arrive.

Probably, the fact that our government takes a slightly larger role in the planning, regulating and taxing of our private enterprises has the effect of lowering our measured productivity. Money that is taxed away from businesses in order to provide more unemployment benefits, pensions for the old, or care for the sick is money that does not go back into business investment. We believe that this is a "cost" worth incurring, since GDP and GDP per capita are measures of aggregate output that place no value on the "quality" of life or on other measures of happiness or social equality.

You must answer Question 3 or Question 4.

Question 3

(10 marks)

Big Bakery Inc. (“BB”) is a major commercial bakery. It supplies bread, rolls cakes and other baked goods to all of the major supermarkets in Ontario. BB is a public company, and the shares are widely held by shareholders throughout Canada. BB also makes and sells commercial baking ovens. These ovens are sold to other commercial bakeries.

a) BB now wishes to concentrate on its baking business. BB wants to ensure that someone other than BB owns the business of making and selling baking ovens. Detail three ways in which BB could achieve this goal. For each, point out in as much detail as you can just how that plan would work. (3 marks for each plan, 9 marks overall).

1. BB could sell the business as a going concern by selling the assets of the business to some other business. BB would determine which assets applied to the business – the machinery for making the ovens, the raw materials and work in progress, the inventory of completed ovens, the customer lists and requirements. All of these would be valued and sold to the new owners. This would be an asset sale of the oven business, which the new corporation would be acquiring by an ACQUISITION. It would also qualify as a DIVESTITURE.
2. BB could incorporate a subsidiary and transfer the assets and business of making ovens to the subsidiary. BB would take back shares of the new corporation in return for the transfer of the oven business. Note that in this scenario, BB could also transfer some or all of the obligations associated with the business to the new subsidiary; in an asset sale, it is very unusual to transfer short-term liabilities. BB could then sell the shares of the new corporation to a new owner. This would constitute a DIVESTITURE of the business.
3. BB could incorporate a subsidiary and transfer the assets and business of making ovens to that subsidiary, as in #2. This time, however, BB would SPIN-OFF the business by giving the shares of the business to the existing BB shareholders. Before, each shareholder would hold shares of BB. After the spin-off, each shareholder would hold the same number of shares of BB, but would also hold some shares of the new corporation. The shares of the new corporation would be valued at their appropriate percentage of the overall value of BB’s business before the divestiture.

Question 3 continued

b) What would be the effect on BB's share price of each of the plans? Why?
BB's shares are trading at \$30 for each share. There are 1 million shares issued. The value of the baking oven business is \$10 million. (1 mark)

BB's overall business is worth \$30 Million. The oven business is worth \$10 Million, leaving BB's baking business itself worth \$20 Million. If BB sold the assets of the oven business or the shares of its spin-off to a third party, it would receive the value of \$10 Million from the sale. That would mean that BB would have its own baking business worth \$20 Million and \$10 Million in cash. That should not affect the share value, although share values fluctuate for other reasons than fundamental values. If, however, BB provided its shareholders with shares of the oven business, the BB shares would fall in value to \$20 for each share. The BB shareholders would also hold oven business shares worth \$10 for each share.

Question 4

(10 marks)

The American Psychologist David McLelland developed the "needs motivation" theory.

McLelland's theory suggests that every person possesses one of three basic motivational needs. According to McLelland's theory, depending on which of these motivational needs each of us possess, we are likely to pursue a kind of career or work environment..

a) Identify each of the three basic human motivators identified by McLelland. (3 marks)

David McClelland's 3 motivational needs

Need for power (n-pow)

These people are 'authority motivated'. They need to be influential, and to make an impact. Produces a need to lead and for their ideas to prevail. These people need personal status and prestige.

Need for affiliation (n-affil)

These people need friendly relationships and are motivated toward interaction with other people. Produces a need to be liked and held in popular regard. These people are team players.

Need for achievement (n-ach)

These people seek achievement, and attainment of realistic but challenging goals. Produces a strong need for feedback as to achievement and progress, and for a sense of accomplishment.

Question 4 continued

b) For each of the three motivational needs, suggest an example of a job or career that might be pursued by someone who possess that type of motivational need. (2 marks for each need, 6 marks overall)

Need for power (n-pow): job or career in a command and control environment, for example the military, or the police. Possibly a large corporation, with many clearly defined layers of hierarchy

Need for affiliation (n-affil): job or career that involves working with people and helping them. Likely or suitable jobs for people with a high n-Aff would be: teacher, social worker, doctor or nurse, minister, etc.

Need for achievement (n-ach): Any job that involves lots of individual challenges, and requires goal setting. Most likely a person with a high n-Ach would become self-employed, or start their own business as an entrepreneur.

c) Is it possible to be motivated by more than one of these needs? Explain. (1 mark)

Yes.

Any reasonably intelligent comment or observation deserves an extra 1/2 mark

