

Problem 1

Answer: ... the different locations of the sellers along the beach.

Problem 2

Answer:

- ▷ They can introduce loyalty programmes.
- ▷ They can limit their production capacity so that they cannot serve the whole market.

Problem 3

Answer: ... can realize positive profits.

Problem 4

Answer: ... given equal prices, some consumers would choose product A whereas others would choose product B.

Problem 5

Answer:

- ▷ The consumers are infinitely price elastic.
- ▷ The firms do not have any capacity constraints.
- ▷ The firms' products are identical.

Problem 6

Answer:

- ▷ Competition decreases (*ceteris paribus*) with a high degree of heterogeneity between people who are willing to pay high prices for premium ice cream and people who prefer low quality ice cream to affordable prices.

Problem 7

Answer:

- ▷ The different brands represent horizontal product differentiation.

Problem 8

Answer:

- ▷ The cost leadership and the differentiation strategies need different organizational arrangements, control procedures, incentive systems and resources.
- ▷ For a cost leadership strategy it is important to charge aggressive prices to achieve a high market share.
- ▷ A central element of the cost leadership strategy is minimizing costs in areas such as R&D, services, sales force and advertising.

Problem 9

Answer:

- ▷ The Burger King fans become more extreme and are no longer willing to eat any McDonald's burger at all.
- ▷ Suddenly, much more people dine at fast food restaurants.

Problem 10

Answer: ...equal to their costs.