



Managerial Economics

Spring Semester, 2020/21

Assessment 5: Case Study

Weighting: 60%

Date and method of submission: week 15 via NEOlms

Word count or equivalent: 1800 words (+/-10%)

Assessment 5: Case Study (60% of final mark)

At the end of the module, you will deliver a business case analysis individually. This will encourage you to develop awareness on the application of economic tools in the field of corporate governance, rather than only pursuing a purely theoretical understanding of economics and business management.

In your analysis, you have to answer the assigned open questions (see below) based on the case (available on Blackboard on Week 1).

The assessment will assess your (1) understanding of when and why principal-agent relationships occur (2) skills of identifying what types of difficulties arise in principal-agent problems, (3) skills of investigating on what factors lead to principal-agent problems (hidden information and hidden action) and (4) skills of proposing solutions to the principal-agent problems.

Specifically, your work should include the following:

1. Introduction

- Please state the aim of your work briefly and summarise the sections you are going to cover in this work.

2. Background Information

- Please summarise the key information presented in the case regarding the local airline company - Sky Air, Inc.
- Take into account the financial need of the Sky Air, Inc., please list the possible financing methods for the company and describe the characteristics of each possible financing method, respectively.

3. Analysis



ASSESSMENT GUIDELINES

- Generally define principals-agent problems (adverse selection and moral hazard) and discuss how hidden information and hidden action could negatively affect a business' value.
- Please explain why a principal-agent relationship occurs once Sky Air, Inc. obtains external financing (regardless the source of finance) and please identify the principal and the agent.
- Provide reasoning why Sky Air, Inc. decides to seek external financing from venture capitalist from the aspect of properties of venture capital financing compared to other types of financing, and
- Please explain why a moral hazard problem may arise once Sky Air, Inc. agrees the offer of the venture capitalist.

4. Conclusion

- Propose solutions to the identified principal-agent problem based on the identified factors.

Assessment Criteria (A5 Case Study):

- ❖ **Knowledge and Understanding (20%):** Students need to be able to identify why a principal-agent relationship occurs and demonstrate an understanding of principal-agent problems.
- ❖ **Cognitive Skills (35%):** Students will need to be able to identify the types of principal-agent problems by examining the factors (such as hidden information, hidden action, the role of verifiability and observability) leading to the problems.
- ❖ **Practical/Professional Skills (35%):** Students need to propose solutions to the principal-agent problems.
- ❖ **Transferable Skills (10%):** Students need to communicate in a clear manner given the word count requirement and use Harvard Referencing system.