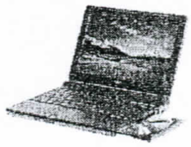
EuroPC laptop computers



Exercise A
Elasticity: Change in sales due to a change in price.

Elasticity of -1 means the same (negative) change. Therefore if price increases by 10%, sales fall by 10%.

What happens in the following cases?

Elasticity	Normal sales	Unit price	Income	Change to price	New Sales	New income
-1	150	35€		+10%		
-2	3,500	12€50		+5%		
-2.5	25,750	8,350€		-15%		
+1	13,300	167€		+12%		

Exercise B
Exchange rates. Product sales
See <http://www.ecb.int/stats/exchange/eurofxref/html/eurofxref-graph-usd.en.html>
Exporting laptops from the Eurozone (€) to the USA ($). Elasticity = -0.8

Laptop Unit price €	**23 October 2000 € = 0.84US$**	**30 January 2008 € = 1.48$**	**Change in price (%)**	**Unit sales 2000**	**Unit sales 2008**
Price in € 850	*Price in $	* Price in $	*%	750,000	*

Export income in 2000: *€

Expected export income in 2008: *€

Exercise C
Exchange rates. Company value and takeover risk
Your company EuroPC
Value 12€m (2000-2008)
Value of your company for a takeover bid: 2000: *$. 2008: *$

Competing company USPC
Value 15$m (2000-2008)
Value of their company for a takeover bid: 2000: *€. 2008: *€

NB. A weakened currency gives you export advantage, but capital weakness