

UNIVERSITY COLLEGE LONDON

University of London

EXAMINATION FOR INTERNAL STUDENTS

For the following qualifications :-

M. Sc.

ESGC2: The Economic Institutions of the Construction Industry

COURSE CODE : **ENVSGC02**

DATE : **07-MAY-02**

TIME : **14.30**

TIME ALLOWED : **2 hours**

02-C0442-3-50

© 2002 *University of London*

TURN OVER

ENVS GC02: Economic institutions of the construction industry

Examination question paper, May 2002

Answer any TWO questions only

1. What factors will cause the costs of co-ordinating economic activities through contracts to be non-trivial?

Specify the sets of circumstances under which transaction costs are likely to be minimised by using mainly contracts to buy goods and services from other firms, on the one hand, and those likely to make own-production using contracts of employment a more economical alternative, on the other.

Apply these principles either to the case of procurement by a construction client or to a main contractor's make-or-buy decisions.

2. Critically review the propositions: that the highly competitive structure of the construction industry prevents the representative firm from conducting its business by means of high gross margins and high ratios of future-orientated expenditures to turnover; and that structure and conduct together explain poor average profitability and productivity performance of construction firms.

Illustrate your answer by reference to schematic but reasonably realistic actual values for key business ratios for at least one type of construction firm.

3. Stock market investors assess current share price against predicted changes in a firm's profit performance in making decisions on buying or selling shares. Analyse the factors an investor must assess in arriving at their prediction for a construction firm. Illustrate with reference to the price / earnings and dividend yield ratios of the shares of either a specific construction firm or a type of construction firm.

4. Contractors are said to *buy work* when they submit tender prices below the estimated cost to the firm of performing the project. Describe the circumstances in which a contractor may choose to 'buy work'. Analyse the motivations for and consequences of such behaviour.

5. 'Large construction firms are restructuring to become either asset-based or service-led or contracting-led'. Critically analyse the evidence for this proposition, and the rationale for this change in firms' strategic scope.

END OF PAPER