

University of London

EXAMINATION FOR INTERNAL STUDENTS

For The Following Qualification:-

M.Sc.

ESGC2: The Economic Institutions of the Construction Industry

COURSE CODE : ENVSGC02

DATE : 04-MAY-04

TIME : 14.30

TIME ALLOWED : 2 Hours

MSc Construction Economics and Management

ENVS GC02 The economic institutions of the construction industry

May 2004

Candidates must answer **two** questions. You may not answer both question [3A] and question [3B].

1] "Construction uses stocks of human capital (its work force) and environmental capital (natural resources) to create the greater part of all net additions to the man-made capital stock for the whole economy"

[Prof. D Pearce (2003), *The social and economic value of construction*]

Critically discuss both the contribution of construction to economic growth, conceived as the rate of increase in the flow of net output, and to sustainable development, conceived as sustainable increase in the size and productivity of total stocks of capital of all kinds.

2] 'The capacity of an industry is the level of output at which the industry cost-curve begins to slope sharply upwards so that unit direct cost becomes equal to unit revenue.' Critically discuss, with reference to construction industries. As part of this discussion, make sure you address the following questions:

- What causes an industry's cost-curve to slope sharply upwards?
- Why will and how can an industry increase its capacity?

Illustrate your answer with reference both to the on-site construction industry and to one other industry within the construction sector.

3]

Either

[A] Transaction costs (TCs) are one influence upon a firm's decision about whether to make something in-house or buy it from another firm. Analysis of TCs involves comparing the costs of managing a transaction internally with the costs of using a market for the transaction. For a range of construction transactions, discuss the factors influencing the relative TCs of 'making' on the one hand and 'buying' on the other, and also discuss the relative importance of economising on TCs as against other influences upon the make-or-buy decision of the construction firm.

or

[B] Illustrate, with reference to construction, some of the differences between decision making in (neoclassical) analytic time and in (behavioural / evolutionary) perspective time.

4] Construction clients often choose to restrict competition between construction firms for their contracts, both by limiting competition to pre-qualified or approved firms and by limiting the number of bidders for any one project. Why do they do this?

END OF PAPER