

Exam CP 311

Date: Thursday, November 20, 2025

INSTRUCTIONS TO CANDIDATES

General Instructions

1. This examination has 5 questions numbered 1 through 5 with a total of 50 points.

The points for each question are indicated at the beginning of the question. Questions 2, 3, and 5 pertain to the Case Study.

2. While every attempt is made to avoid defective questions, sometimes they do occur. If you believe a question is defective, the supervisor or proctor cannot give you any guidance beyond the instructions provided in this document.

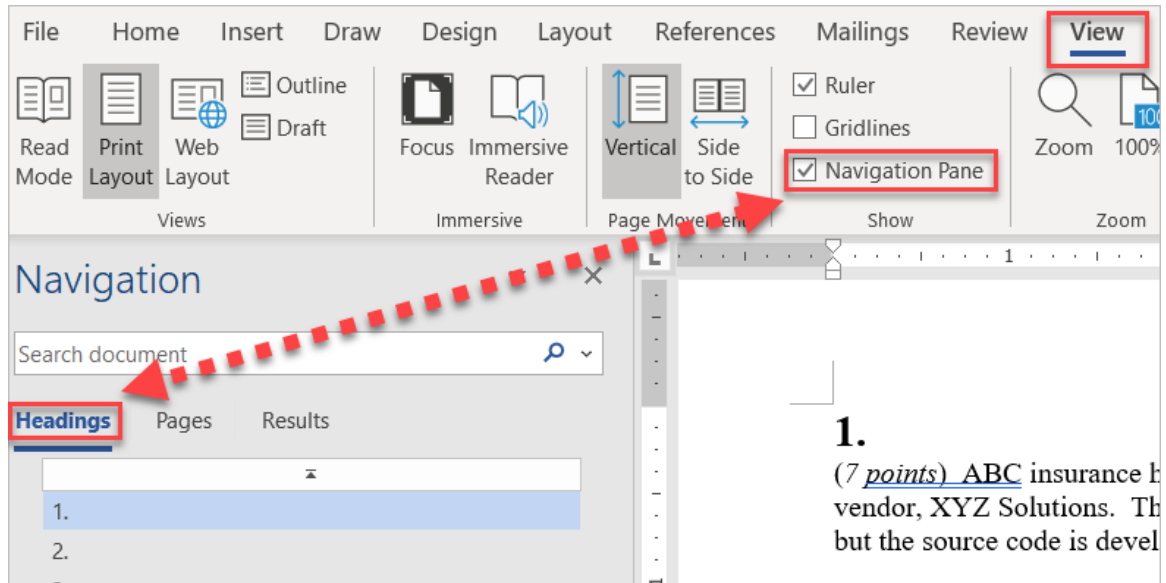
Written-Answer Instructions

1. Each question part or subpart should be answered either in the Word document or the Excel file as directed. Graders will only look at work in the indicated file.
 - a) In the Word document, answers should be entered in the box marked ANSWER. The box will expand as lines of text are added. There is no need to use special characters or subscripts (though they may be used). For example, β_1 can be typed as beta_1 (and ^ used to indicate a superscript).
 - b) In the Excel document formulas should be entered. Performing calculations on scratch paper or with a calculator and then entering the answer in the cell will not earn full credit. Formatting of cells or rounding is not required for credit.
 - c) Individual exams may provide additional directions that apply throughout the exam or to individual items.
2. The answer should be confined to the question as set.
3. Prior to uploading your Word and Excel files, each file should be saved and renamed with your unique candidate number in the filename. To maintain anonymity, please refrain from using your name and instead use your candidate number.
4. The Word and Excel files that contain your answers must be uploaded before time expires.

Navigation Instructions

Open the Navigation Pane to jump to questions.

Press Ctrl+F, or click View > Navigation Pane:



CASE STUDY INSTRUCTIONS

The case study will be used as a basis for all examination questions. Be sure to answer the question asked by referring to the case study. For example, when asked for the advantages of a particular plan design to a company referenced in the case study, your response should be limited to that company. Other advantages should not be listed, as they are extraneous to the question and will result in no additional credit. Further, if they conflict with the applicable advantages, no credit will be given.

1.

(8 points) XYZ Airlines is proposing a concierge service for its business travelers, which would guarantee a spot on any plane for the traveler. This service could result in other travelers being “bumped” off their booked flight and rebooked onto another flight, up to when the plane departs. The VP of Customer Experience is worried about how the service will impact its customers and the risks it poses to XYZ.

The VP of Customer Experience and VP of Product Strategies are meeting to discuss the new service. One of the VPs provides ways for overcoming bias in decision-making as follows:

- I. Propose a solution early on to frame the discussion.
- II. Consider the plausible worst-case outcomes.
- III. Create rules for making decisions.

- (a) (2 points) Explain the effectiveness of each item I to III in helping overcome bias in decision-making.

ANSWER:

The VP of Product Strategies suggests a compensation scheme where the affected traveler will receive the next available flight to their destination plus \$1,000 flight credit. The VP believes the bumped travelers and the business travelers will be happy customers.

- (b) (1 point) Explain how optimism bias is applicable in this discussion.

ANSWER:

- (c) (1.5 points) Explain how the endowment effect applies to the service.

ANSWER:

- (d) (2.5 points) Recommend an alternative compensation scheme that can reduce the impact of the endowment effect. Justify your answer.

ANSWER:

1. Continued

- (e) (*1 point*) Explain if the concierge service along with the compensation scheme is an example of narrow framing.

ANSWER:

**Questions 2, 3, and 5 pertain to the Case Study.
Each question should be answered independently.**

2.

(12 points) Information on Blue Jay Air (BJA) can be found in Section 2 of the Case Study. Information on Seaplane Expeditions and Aviation Company (SEA) can be found in section 7 of the Case Study.

BJA is considering partnering with or acquiring SEA.

- (a) (2 points) Explain two competitive risks that BJA could encounter utilizing a cooperative strategy with SEA.

ANSWER:

- (b) (2 points) Recommend two ways that BJA could mitigate the risks provided in (a). Justify your answer.

ANSWER:

- (c) (3 points) Identify three reasons why BJA should consider an acquisition instead of a cooperative strategy. Justify your answer.

ANSWER:

BJA has decided to move forward with a complementary alliance with SEA. The Chief Human Resources Officer of BJA would like to understand how this change might impact the culture of BJA.

- (d) (2 points)

- (i) (1 point) Describe the two types of complementary alliances.

ANSWER:

- (ii) (1 point) Explain which type from (i) is applicable to the partnership with SEA.

ANSWER:

2. Continued

- (e) (1 point) Assess the potential impact on BJA's culture.

ANSWER:

The airline industry is facing disruption through the adoption of artificial intelligence (AI) to drive improvements on airplane maintenance, revenue management, crew management, and fuel efficiency optimization. Each firm in the industry has chosen one of these four applications for early adoption.

- (f) (2 points) Recommend a business-level cooperative strategy on AI adoption for BJA/SEA. Justify your answer.

ANSWER:

Questions 2, 3, and 5 pertain to the Case Study.
Each question should be answered independently.

3.

(12 points) Information on Blue Jay Air (BJA) can be found in section 2 of the Case Study.

BJA is ready to purchase either Xolar or Skylite. You are given the following information:

$Value = \frac{NOPAT_{t=1}(1 - \frac{g}{ROIC})}{WACC - g}$			
<u>Company</u>	<u>ROIC</u>	<u>Growth Rate</u>	<u>WACC</u>
Xolar	8%	5%	6%
Skylite	6%	11%	7%

- (a) (3 points) Recommend which company BJA should purchase to maximize value based on Xolar and Skylite's recent initiatives and the table above. Justify your answer.

ANSWER:

BJA has decided to move forward with your recommendation. At a meeting to discuss the offer price, BJA's CFO makes the following statement:

"This deal will be a huge win for BJA. After we close, the aircraft manufacturer will be our biggest asset. We should include a liquidity premium in determining our offer price."

- (b) (2.5 points) Evaluate the statement with respect to each of Xolar and Skylite.

ANSWER:

BJA's CEO is about to make major management changes.

- (c) (2.5 points) Describe the likely impact to the share price of RPPC (BJA's parent) after the management changes are publicly announced. Justify your answer.

ANSWER:

3. Continued

BJA's new management is considering the following actions:

- I. Switch from traditional debt financing to off-balance-sheet financing.
- II. Set up the low-cost carrier business.

- (d) (2 points) Analyze the potential of each action I and II to increase enterprise value. Justify your answer.

ANSWER:

To determine BJA's Enterprise Value as of 12/31/2024, you begin with the following information for BJA.

- I. Discounted Cash Flow (DCF) value of operations.
- II. The information in Exhibit 2, Non-Consolidated Statement of Financial Position (sheet *BJA Sect 2A Exh 2* in the Excel file provided).

- (e) (2 points)

- (i) (1 point) Identify one balance sheet item whose value should be added to BJA's DCF value of operations to determine enterprise value. Justify your answer.

ANSWER:

- (ii) (1 point) Identify one balance sheet item whose value should not be added to BJA's DCF value of operations to determine enterprise value. Justify your answer.

ANSWER:

4.

(10 points) ABC Insurance Company is considering buying reinsurance protection to mitigate exposure to claims in excess of \$0.5 million. ABC annual economics are shown below, with details provided on the Excel spreadsheet.

<i>All figures shown in \$ million</i>	Annual
Premium	\$100.0
Expenses	\$30.0
Attritional Claims (small and predictable)	\$50.0
Large Claims	$X = S_1 + S_2 + \dots S_N$
Reinsurance Premium	\$8.0 per year
Reinsurance Benefits	Pays the amount of a claim less \$2 when the claim is between \$2 and \$50, inclusive

An incomplete model has been provided, and you have been asked to update certain parameters and metrics. ABC uses the information on the *Q4 - Historical Large Claims* sheet to develop the entire model and will use the following assumptions.

- The frequency of large claims can be represented by a binomial model, with each claim occurring with a 50% probability and a maximum of ten large claims per year.
- The severity of large claims can be represented by a lognormal model with an average total claim size of \$2 million and a standard deviation of \$5 million.
- Each of these variables is independent with no additional impacts of supply and demand.

4. Continued

(a) (3 points)

- (i) (2 points) Explain the parameters used to analyze the random variable of claims severity in the Q4 (a) (b) Simulation sheet.

The response for this part is to be provided in the Excel spreadsheet.

- (ii) (1 point) Identify the parameter values for each of item in (i), where needed, in the Q4 (a) (b) Simulation sheet.

The response for this part is to be provided in the Excel spreadsheet.

(b) (4.5 points)

- (i) (1.5 points) Calculate the probability that the reinsurance strategy leads to higher income in any given year. Show your work.

The response for this part is to be provided in the Excel spreadsheet.

- (ii) (1.5 points) Calculate the probability that the reinsurance strategy will lead to a loss (negative income). Show your work.

The response for this part is to be provided in the Excel spreadsheet.

- (iii) (1.5 points) Calculate the expected value of the reinsurance strategy. Show your work.

The response for this part is to be provided in the Excel spreadsheet.

- (c) (1 point) Recommend whether ABC should implement the reinsurance strategy. Justify your answer.

ANSWER:

- (d) (1.5 points) Recommend how the model can be enhanced to address a limitation of the model. Justify your answer.

ANSWER:

*Questions 2, 3, and 5 pertain to the Case Study.
Each question should be answered independently.*

5.

(8 points) Information on Blue Jay Air (BJA) can be found in section 2 of the Case Study. Information on Seaplane Expeditions and Aviation Company (SEA) can be found in section 7 of the Case Study.

BJA is investigating the merits of purchasing seaplanes capable of bringing their customers closer to their final destination. This would make them a new entrant into the seaplane industry.

- (a) (2 points) Assess if there are operational economies of scale for BJA as a new entrant.

ANSWER:

In consideration of acquiring SEA, BJA's management consultants have identified the following two corporate core competencies of BJA:

- I. Marketing
- II. Key management personnel in airplane maintenance, including some at BJT

- (b) (3 points) Assess whether there is a high level of corporate relatedness with a SEA acquisition based on each of the core competencies I and II.

ANSWER:

Below is a list of potential problems in achieving acquisition success.

- I. Inability to achieve synergy
- II. Acquisition target is too large
- III. Too much diversification

- (c) (3 points) Assess whether each of I to III will be a potential problem in BJA's acquisition of SEA.

ANSWER:

****END OF EXAMINATION****