Answer on Question#39735 – Economics – Other

Assignment

a. A private college adds a small café to its building to cater to the needs of its own students. The total cost of the facilities for the café is $100,000. After a year of operations the college determines that operating the café is interfering with its primary business of educating students. A group of enterprising business students offer to purchase the café facilities for $50,000. The college balks at the idea because it had paid $100,000 for the facilities. The college spends $10,000 advertising the café for sale hoping to get an outside buyer willing to pay much more than the students and operate the café on campus. When no outside offer was forthcoming the students increased their offer to $55,000. Should the college take the student offer? Why or why not?

Solution

If there is no outside offer and the students increased their offer to $55,000, the college should take the student offer, because the next college attempt to find another partner through advertizing will increase losses, so the college should sell the cafe to students to cover the part of $110,000 losses with $55,000.