MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS

EAE 408: ECONOMICS OF INDUSTRY

DATE: 21/1/2021 **TIME: 2.00-4.00 PM**

INSTRUCTIONS:

(i) Answer question one (Compulsory) and any other two questions

(ii) Do not write on the question paper

(iii) Show your working clearly

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Explain the differences between Analytical Industrial Economics and Descriptive Industrial Economics (4 marks)

b) Explain three theoretical foundations of Industrial Economics (6 marks)

c) Thika motors sell its auto mobiles in both Canada and London. Due to trade restrictions, a vehicle sold in one country cannot be resold in the other. The demand functions of the two countries are

Canada = 30,000 – 0.40Q

London = 20,000 – 0.20Q

The firms total cost function is TC = 10,000,000 + 12,000Q. What price should Thika motors charge in each country in order to maximize profit? What will be the total profit? (6 marks)

d) Consider a perfectly competitive market in the short run. Assume that market demand is and market supply is P=Qs. Denoting firm level quantity by q, assume TC=50+4q+2q2 so that MC=4+4q. 100 4 D P Q

i. Determine the equilibrium quantity and price in this market (4 marks)

ii. Determine the number of firms in the industry in the short run (3 marks)

iii. Do firms make a profit or loss in the short run, and how much are these profits/losses? (3 marks)

e) With aid of a well labeled diagram explain output-oriented measure of efficiency level (6 marks)

QUESTION TWO (20 MARKS)

a) Explain Transactions Cost Theory of the firm (8 marks)

b) Using a well labeled diagram show and explain the loss of welfare for a monopoly (6 marks)

c) Explain features of market structures as suggested by Bain (6 marks)

QUESTION THREE (20 MARKS)

a) Using a well labeled diagrams explain the equilibrium level for a perfect competitive market structure in the short run and long run (8 marks)

b) Demonstrate that the optimal division of a pie (π) of a random size (the profit) between a risk neutral party (the shareholders) and a risk averse one (the manager), has the risk neutral party bear all the risk if the incentive issues are not taken into consideration. (6 marks)

c) With aid of a diagram explain the Property Rights theory of the firm (6 marks)

QUESTION FOUR (20 MARKS)

a) The actual sales for 8 firma is as given in the table below:

Firm	**Actual sales made in millions**	**Market share for firms**
1	4	-
2	12	-
3	12	-
4	3	-
5	10	-
6	8	-

7	16	-
8	20	-

i. Calculate the firm's respective market share (4 marks)

ii. Calculate the cumulative market share starting from largest to smallest and show the information on the concentration curve (6 marks)

b) Explain the market structure conduct- performance framework (5 marks)

c) Explain main motives for all diversification types (5 marks)

QUESTION FIVE (20 MARKS)

a) With aid of well labeled diagram, show and explain economic profit in the short-run for a monopolistic competition market. Also using a diagram show and explain the long-run equilibrium for a monopolistic competition market. (10 marks)

b) The demand function of a monopolist is given by P = 50-2Q and the marginal cost is sh.10;

Required

i. Compute the deadweight loss related with monopoly pricing (4 marks)

ii. If P = 50-4Q, what is the dead weight loss (4 marks)

iii. Based on your answers (i) and (ii) above, how is the dead weight loss related to the slope of the demand curve (2 marks)