MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 408: ECONOMICS OF INDUSTRY

DATE: 12/8/2021   **TIME: 11.00-1.00 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)   Give four differences between Microeconomics and Industrial Economics   (4 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   (8 marks)

c)   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   (3 marks)

     ii.   If $P = 50-4Q$, what is the dead weight loss   (3 marks)

d)   With aid of a well labeled diagram explain the concept of technical efficiency   (7 marks)

e)   You are given the following information for a given firm

Firm	Actual sales made in millions
1	2
2	4
3	8
4	1
5	5
6	6
7	10
8	12

    i.   Compute market share for each firm   (2 marks)

    ii.   Compute the market share for the largest four firms and interpret   (3 marks)

QUESTION TWO (20 MARKS)

a)   With aid of a well labeled diagram explain and show the consumer surplus, producer surplus and dead weight loss associated with the monopoly   (8 marks)

b)   Using a well labeled diagram explain the input-oriented measure of efficiency   (6 marks)

c)   Clearly explain various elements of the planning process at the firm level   (6 marks)

QUESTION THREE (20 MARKS)

a)   Graphically demonstrate the equilibrium situation of a perfect competitive market both in the short run and long run   (8 marks)

b)   Clearly explain market structure – Conduct – Performance Framework   (8 marks)

c)   Explain two main sources of economic problem for a firm   (4 marks)

QUESTION FOUR (20 MARKS)

a)   Graphically demonstrate the equilibrium situation for a monopolistic competition in the short run and long run   (8 marks)

b)   Clearly explain the property rights theory of the firm   (6 marks)

c)   Clearly explain three main situations for a merger   (6 marks)

QUESTION FIVE (20 MARKS)

a)   Graphically demonstrate the equilibrium situation for an Oligopoly type of market structure

    (7 marks)

b)   Clearly explain transaction cost theory of the firm   (5 marks)

c)   Clearly explain four main types of diversification   (8 marks)