MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 408: ECONOMICS OF INDUSTRY

DATE: 25/7/2019 **TIME:2:00 – 4:00 PM**

<u>INSTRUCTIONS:</u>

- **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 factors that define a given market structure (8 marks)

b) Using a diagram briefly show the welfare loss and net consumer surplus of a monopoly (6 marks)

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

USA = 60,000 – 0.80Q

JAPAN = 40,000 – 0.40Q

The firms total cost function is TC = 20,000,000 + 24,000Q. What price should Nairobi motors charge in each country in order to maximize profit? What will be the total profit? (6 marks)

d) Distinguish between Microeconomics and Industrial Economics (4 marks)

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

QUESTION TWO (20 MARKS)

a) Discuss the following theories

i) Principal-agent theory (5 marks)

ii) Property rights theory (5 marks)

b) The demand function of a monopolist is given by P = 100-4Q and the marginal cost is sh.20;

Required

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

ii) If P = 100-8Q, 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)

QUESTION THREE (20 MARKS)

a) Using example in each case, explain three kinds of price discrimination (9 marks)

b) Discuss the Measurement of efficiency level under the following

(i) Input and output oriented measures (3 marks)

(ii) Deterministic frontier approach (3 marks)

c) Define market power and explain two ways through which market power can be measured (5 marks)

QUESTION FOUR (20 MARKS)

(a) Explain three types of diversification (6 marks)

(b) With help of a diagram briefly show the equilibrium under perfect competition (8 marks)

(c) Explain three motives of a merger (6 marks)

QUESTION FIVE (20 MARKS)

a) Explain the meaning of the term concentration curve (3 marks)

b) There are two basic methods by which a society can make its economic decisions. These are free market mechanisms and central planning mechanism. Briefly discuss each of them. (6 marks)

c) Every monopolistic market structure will always have predatory characteristics. Explain the statement using well labeled diagrams (6 marks)