MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 408: ECONOMICS OF INDUSTRY

DATE: 26/9/2019 **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 relationship between Microeconomics and Industrial Economics (8 marks)

b) Explain three elements of market structure (6 marks)

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

London = 30,000 – 0.40Q

France = 20,000 – 0.20Q

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

d) Explain the interdependence between Descriptive Industrial Economics and Analytical Industrial Economics (4 marks)

e) Explain how the firm achieves its objective as per the transaction cost theory (6 marks)

QUESTION TWO (20 MARKS)

a) Discuss the following theories

(i) Principal – Agent theory (5 marks)

(iii) Neoclassical theory (5 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)

QUESTION THREE (20 MARKS)

a) Explain determinants of economic efficiency (8 marks)

b) With aid of a diagram explain measurement of efficiency level using input oriented measure (10 marks)

c) Distinguish between market conduct and market performance (2 marks)

QUESTION FOUR (20 MARKS)

a) Explain three types of price discrimination (6 marks)

b) With help of a diagram show the equilibrium for a monopolistic competition market structure (8 marks)

c) Discuss three motives for diversification (6 marks)

QUESTION FIVE (20 MARKS)

a) Using a well labeled diagram, show the dead weight loss associated with the monopoly (8 marks)

b) Explain the market structure performance framework of industrial economics (8 marks)

c) Explain two methods of measuring market power (4 marks)