



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

EAE 408: ECONOMICS OF INDUSTRY

DATE:

TIME:

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 features of the market structure as suggested by Bain (8 marks)
- b) Explain three kinds of price discrimination giving examples in each case (6 marks)
- c) Machakos 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

$$\text{USA} = 30,000 - 0.40Q$$

$$\text{JAPAN} = 20,000 - 0.20Q$$

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

- d) Distinguish between Descriptive Industrial Economics and Analytical Industrial Economics (4 marks)
- e) Explain three theoretical foundations of Industrial Economics (6 marks)

QUESTION TWO (20 MARKS)

- a) Discuss the following theories
- (i) The transaction Cost Theory of the firm (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 the main motives for product diversification (8 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)
 - (iii) Parametric approach (3 marks)
- c) Distinguish between market conduct and market performance (3 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss the link between Vertical differentiation and Horizontal differentiation
(6 marks)
- b) With help of a diagram briefly show the oligopoly kinked demand equilibrium
(8 marks)
- c) Discuss behavior of firms under perfect competition
(6 marks)

QUESTION FIVE (20 MARKS)

- a) Explain the market structure performance framework of industrial economics
(8 marks)
- b) Why would a firm opt to indulge in vertical integration
(6 marks)
- c) Using graphical analysis explain the inefficiency of the monopoly
(6 marks)