



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:

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 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

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

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

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)