MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARMENT OF ECONOMICS

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF ECONOMICS

EAE 408: ECONOMICS OF INDUSTRY

DATE: 26/7/2017 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Differentiate between the following terms (10 marks)

i) Analytical industrial economics and descriptive industrial economics

ii) market conduct and market performance

iii) perfect competition and monopolistic competition

iv) technical efficiency and allocative efficiency

v) diversification and integeration

b) State the coase theorem (2 marks)

c) Suppose there is a railway that runs coal-burning steam locomotives through a farming area and caused fires in the crop fields at harvest time. The crop damage from each train run is $200. Suppose the costs of running trains on a line next to a farming area are as follows:

Number of Trains per Day	Private Costs ($)	Crop Damage ($)	Social Cost ($)
1	100	200	300
2	200	400	600
3	400	600	1,000
4	700	800	1,500
5	1,100	1,000	2,100
6	1,600	1,200	2,800

If the revenue from a train run is $350 how many runs would the railways run if no compensation is required for crop damage? (8 marks)

d) Define what is a market structure (2 marks)

e) Identify and Explain the four factors that define a given market structure. (8 marks)

QUESTION TWO (20 MARKS)

Identify and discuss the main tenets of the traditional theories of the firm and highlight their limitations. (20 marks)

QUESTION THREE (20 MARKS)

a) Explain the main features of an oligopolistic market structure (6 marks)

b) Using the kinked demand curve explain the equilbrium in the oligopolistic market structure? (10 marks)

c) Identify and write short notes on the types of oligopolists. (4 marks)

QUESTION FOUR (20 MARKS)

a) Explain what diversification is and identify the main economic motives for diversification? (10 marks)

b) Hamisi sells packaged milk. He operates in a market whose total market supply for milk is specified as Q units and the demand function as $P = F(Q) = F(Q_1 + Q_2 + ... + Q_i + ... + Q_n)$ where P is product price, Q_i is output of the *i*-th firm.

   i) Show that the marginal revenue for the *i*-th firm depends on the product price, market share in output for the firm and quantity elasticity of price. (4 marks)

   ii) Suppose the firms under Hamisi's company are of unequal sizes, show that the average marginal revenue depends on product price (p), concentration index (H) and the elasticity coefficient (Eq) (6 marks)

QUESTION FIVE (20 MARKS)

a) Why would a firm opt to indulge in vertical integration. (4 marks)

b) If you are a milk processing company, explain how you would indulge in vertical integration. (6 marks)

c) Identify and explain the different situations for a merger. (6 marks)

d) Explain four economic motives for a merger. (4 marks)