MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

SECOND SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE
EAE 408: ECONOMICS OF INDUSTRY

DATE: 8/8/2016 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE

a) Explain why it is important for a firm to define its market (5 marks)

b) Define the following concepts

i) Market structure (2 marks)

ii) Market performance (2 marks)

iii) Monopoly power (2 marks)

iv) Market conduct (2 marks)

v) Industry (2 marks)

c) The core of any economic activity is to strive for the maximum possible efficiency or performance. Assuming you are a consultant and you have won a tender to measure the efficiency of firms in the telecommunication industry in Kenya, explain how you will use the graphical approaches to measure the efficiency of these firms (10 marks)

d) Briefly discuss why firms merge (5 marks)

QUESTION TWO

a) Market concentration and concentration curve are the two main approaches of measuring merger. Hannah and Kay offer general conditions or requirements which should be satisfied by indexes if proper are to be arrived at. Briefly explain these conditions (10 marks)

b) In the recent past in Kenya there has been rising trend of firms spreading their operations of business over dissimilar economic activities. Explain the reasons for this and give examples of such firms in Kenya with dissimilar goods and services (10 marks)

QUESTION THREE

a) The firms in a monopolistic market structure normally incur advertising costs to market their slightly differentiated products and to inculcate brand loyalty among their clients. Using any firm of your choice explain the motives for the firms' behavior. (10 marks)

b) A software company sells a proprietary statistical package and charges a uniform price of Ksh 200. At this price, there are no students among the buyers of the software, although some students are willing to pay above the software's marginal cost.

i) Will the company sell more copies of software if it can charge students and other users different prices? Is third degree price discrimination in this case more efficient or less efficient than uniform pricing? Explain (6 marks)

ii) The elasticity of demand for software among non-students is -4/3, and the price that the software company chooses to charge student user is Ksh 100. Calculate the elasticity of demand for this software among students (4 marks)

QUESTION FOUR

One of the main objectives of any firm is cost minimization. However, in the Modern Kenya, many firms are providing their employees with various incentives. Using Coase Theorem, explain this scenario giving relevant examples (20 marks)

QUESTION FIVE

Suppose that you are the Managing Director of a famous pharmaceutical company that sells a unique patented drug to hospitals and Drug stores in Kenya. You are free to charge different per unit prices at these two buyers. Let P be the price per unit of drug and q be the quantity demanded. The hospital demand curve is described by P=12-q and the Drug stores demand curve is given by P=8-q. The marginal cost of producing the drug is constant and equal to C=2 per unit.

a) What is the price that you will charge to hospitals? To Drug stores? (5 marks)

b) If you were to charge a uniform price to all the buyers, what would it be? (10 marks)

c) Show that price discrimination is supported by the concept of elasticity i.e higher price settings are accompanied by lower elasticities and vice versa. (5 marks)