

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

**FOURTH YEAR EXAMINATION FOR THE DEGREE
BACHELOR OF SCIENCE IN ECONOMICS AND
STATISTICS AND BACHELOR OF ARTS IN ECONOMICS
& SOCIOLOGY**

ECON 437: ECONOMICS OF INDUSTRY

STREAM: ECON-STAT, ECON-SOCI

TIME: 2 HRS

DAY: MONDAY [2.30-4.30 P.M]

DATE: 15/04/2024

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

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INSTRUCTIONS: Answer QUESTION ONE and other TWO QUESTIONS**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 $TC = 10,000,000 + 12,000Q$.

- i) What price should Nairobi motors charge in each country in order to maximize profit? **(4 marks)**
 ii) What will be the total profit? **(2 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)**
 ii) 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)**
 c) 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 the 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)**

