

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF ECONOMICS

ECON 415: ECONOMICS OF INDUSTRY

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 23/09/2021

11.30 A.M – 1.30 P.M.

INSTRUCTIONS:

1. Distinguish clearly between these terms as used in Economics of Industry.
 - (i) Lateral and vertical diversification (2 marks)
 - (ii) Product differentiation and product diversification (2 marks)
 - (iii) Merger and acquisition (2 marks)
 - (iv) Technical efficiency and economic efficiency (2 marks)
 - (v) Moral hazard and adverse selection (2 marks)

2. Given a duopolist market with a constant marginal cost, C and market inverse demand given by the function $P = 110 - 2Y$; $Y = Y_1 + Y_2$. Determine;
 - (i) The cournot equilibrium output and profit level. (5 marks)
 - (ii) The Stackleberg equilibrium output and profit level. (5 marks)

3. Graphically, illustrate and discuss the deadweight loss of monopoly. (5 marks)

4. Discuss the various aspects of monopoly market structure that contribute to barriers to entry. (5 marks)

QUESTION TWO

1. Using an appropriate example, discuss the Transaction Cost theory by Ronald Coase. (10 marks)

2. Two of more firms can sometimes integrate to form a new firm. Discuss the different situations where this can occur and motives behind such an action. (10 marks)

QUESTION THREE

1. The core of an economic activity is to strive for the maximum possible efficiency or performance. Discuss the determinants of economic efficiency. (6 marks)
2. Discuss the main features of market structure as suggested by Joe S. Bain. (2 marks)
3. Assume that the demand for a product of a monopolist operating in two markets is given by

$$Q_1 = 55 - P_1 \quad \text{Demand in market 1}$$

$$Q_2 = 70 - 2P_2 \quad \text{Demand in market 2}$$

The cost function is given by $C = 25 + 5Q$, where $Q = Q_1 + Q_2$

Find;

- (i) Equilibrium quantities (Q_1 and Q_2), equilibrium prices P_1 and P_2 and profit if the firm discriminates prices. (7 marks)
- (ii) Equilibrium quantities (Q_1 and Q_2), equilibrium prices (P_1 and P_2) and profit if the firm does not discriminate prices. (5 marks)

QUESTION FOUR

1. Consider a market with three oligopoly firms. Suppose that the market demand curve is given by $P = a - Q$, where $Q = q_1 + q_2 + q_3$. Suppose that the marginal cost for each firm is c . Suppose these firms choose quantities as follows, first firm 1 choose q^1 . Then firms 2 and 3 observe q^1 and then simultaneously choose q^2 and q^3 respectively. Calculate the equilibrium quantities, price and profits. (8 marks)
 2. Discuss the reasons why it is important for a firm to define its market. (6 marks)
 3. Discuss the types of price discrimination practiced by monopolists. (6 marks)
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