

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE  
OF BACHELOR OF

ECON 415: ECONOMICS OF INDUSTRY

STREAMS:

TIME: 2 HOURS

DAY/DATE: FRIDAY 26/03/2021

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

- (a) Differentiate the following concepts as used in industrial economics [10 marks]
- (i) Market power and market conduct
  - (ii) Moral hazard and adverse selection
  - (iii) Lateral and Conglomerate diversification
  - (iv) Economic efficiency and technical efficiency
  - (v) Stackleberg and Cournot model
- (b) Industries are argued to be a core segment in the economy. As an economist, argue for or against this statement focusing your attention on the implication of industries in an economy. [8 marks]
- (c) Prove the following claims; [12 marks]
- (i) The oligopolistic joint output will be higher than the monopolistic output, but lower than the competitive output.
  - (ii) The joint profit of the oligopolistic firms will be lower than the monopolistic profit, but higher than the competitive profit.

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- (iii) The oligopolistic price is lower than monopolistic price, but higher than the competitive price.

### QUESTION TWO

- (a) Three oligopolists operate in a market with inverse demand given by  $P = a - Q$  where  $Q = q_1 + q_2 + q_3$ . Each firm has a constant marginal cost of  $C$ .
- (i) Suppose the three firms simultaneously choose quantities. Find the equilibrium quantities, prices and profits [10 marks]
- (ii) What would be the equilibrium quantities if the firms choose their quantities as follows: First firms 1 and 2 simultaneously choose  $q_1$  and  $q_2$ , respectively. Then firm 3 observes  $q_1$  and  $q_2$  and chooses  $q_3$ . [10 marks]

### QUESTION THREE

- (a) You are a consultant and you have been approached by company XYZ that deals with the manufacture of commodity A. They have asked you to advise them about the type of market their commodity falls under. Discuss the features that you will consider in order to advise your client. [10 marks]
- (b) Different schools of thought have tried to argue for and against advertising. Discuss [6 marks]
- (c) Using a diagram, discuss why the demand curve for oligopolistic producers is kinked [4 marks]

### QUESTION FOUR

- (a) Jokies is a milk processing company, advise the management of this company on how they would indulge in vertical integration. [10 marks]
- (b) Explain the economic motives for merger [5 marks]
- (c) Discuss the transaction cost theory of the firm [5 marks]
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