KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF ECONOMICS

EAE 408: ECONOMICS OF INDUSTRY

DATE: Friday, 24th November 2017 **TIME:** 11.00 a.m. - 1.00 p.m.

INSTRUCTIONS:

Answer Question 1 and TWO other questions.

Question 1 carries 30 marks. All other questions carry 20 marks each.

Time 2 hours

Question 1

a) Explain the unique features of monopolistic competition? (5 marks)

b) Explain the importance of market structures (4 marks)

c) Using an illustration explain the long-run consequences of monopolistic market structure? (6 marks)

d) Using illustrations, clearly distinguish between the following:

(i) Market and market power (5 marks)

(ii) Market performance and market conduct (5 marks)

(iii) Transaction cost theory and neoclassical theory of the firm (5 marks)

Question 2

In the last few months, Kenya has witnessed collapsing or declining performance of major supermarkets such as Uchumi and Ukwala supermarkets. Nakumatt supermarket is the latest victim of such problems. The government has often come out to assist Uchumi supermarket, but when Nakumatt requested for the same treatment, the government turned down the offer. The argument was that Nakumatt is privately owned and therefore couldn't qualify for any bail-out using tax payers' money from the government. Nakumatt supermarket has already closed most of her branches and is facing court cases from landlords and suppliers. However, Tuskys supermarket has come out to salvage Nakumatt from collapsing through a merger. Considering that Tuskys and Nakumatt are among the major supermarkets in Kenya, discuss the kind of behavior demonstrated by the two supermarkets giving relevant examples, the motives behind their actions, and an explanation why such actions might be opposed

(20 Marks).

Question 3

a) Telecommunication industry in Kenya is being dominated by few large firms; there is also limited competition. These firms can also collude explicitly or implicitly to limit or prevent rival firms from entering these markets or industries by erecting barriers to their entry. Using an illustration explain oligopoly kinked demand equilibrium. **(10 marks)**

b) Use the following information to solve the next 4 questions about a monopolistic market. The demand for a good is given by: $Q = 10 - P$. A monopolist's costs are given by: $TC = 2 + 4Q$.

(i) Suppose a single price monopolist controls the market for this good. Determine the monopolist's optimal price and quantity **(4 marks)**

(ii) Using your answer from the previous question, what is the single price monopolist's profit?

(2 marks)

(iii)Compute the deadweight loss from the monopoly **(4 marks)**

Question 4

Kenya is leading Africa in internet penetration with over 30 million Kenyans having access to the internet. A report by Jumia Business Intelligence and GSMA shows that in 2017, 67 per cent of the population in Kenya was classified as internet users. Financial institutions and telecoms in the country have taken advantage of this high level of internet penetration in doing business. This has encouraged many businesses to engage in dissimilar economic activities. Giving relevant examples from the Kenyan economy, give a justification why businesses would engage in dissimilar economic activities and processes that it must significantly change to achieve its objectives

(20 Marks).

Question 5

a) In order to evaluate performance of firm and markets, assessing efficiency of firms is very important. Explain using illustrations the different types of efficiency

(10 marks)

b) There are different approaches used to measure efficiency of firm. Differentiate between parametric and non parametric frontier approach giving examples **(8 marks)**

c) Highlight the different elements that are considered in the planning process of a firm

(2 marks)