MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF SCIENCE IN ECONOMICS, FINANCIAL ECONOMICS AND ECONOMICS AND STATICSTICS
COURSE CODE: ECO 3206-1
COURSE TITLE: ECONOMICS OF INDUSTRY

DATE: 19/4/2023   TIME: 0830-1030 HRS

INSTRUCTIONS TO CANDIDATES

ANSWER **ONE** AND ANY OTHER **TWO** QUESTIONS

QUESTION ONE

a) i. Use Examples and illustrations show prices regulations may improve the performance of monopolies.   **(5 marks)**

ii. What is the dilemma of regulation?   **(3 marks)**

b) i. Discuss the major barriers to entry   **(3 marks)**

ii. Explain each barrier can foster monopoly or duopoly.   **(3 marks)**

c) Using diagrams for both industry and a representative firm.

i. Illustrate competitive long run equilibrium.   **(3 marks)**

ii. Employing these diagrams, show how (a) an increase and (b) a decrease in market demand will upset this long run equilibrium. Assume the industry is of constant costs.   **(3 marks)**

QUESTION TWO

a) Given the production of a firm A as follows:

$Q=30K^{0.7}L^{0.5}$ and input prices r=20 and w=30

i)Determine an equation for the expansion path   **(5marks)**

ii)Find efficient input combination for an output rate of Q=200   **(3marks)**

iii)Calculate output elasticities of labour and capital.   **(3marks)**

b)Show that the profit maximizing quantity for monopolist will always lie in the elastic region of the demand curve.   **(4marks)**

QUESTION THREE

a)i. Explain the concept inter-industry competition.   **(3marks)**

ii. Competition should be judged solely on the basis of the number of firms in the industry, the larger the number, the great the competition. Discuss using examples and illustrations.   **(3marks)**

b) Assume a monopolistic publisher has agreed to pay an author15 percent of the total revenue from the sale of a text. Explain whether the author and the publisher will want to charge the same price for the text.   **(3marks)**

c)i. Explain the economic implication of social regulation.   **(3marks)**

ii. Is Kenyan industry over regulated?   **(3marks)**

QUESTION FOUR

a) Explain how the presence or absence of external market affects the role played by the top management in pricing intermediate products produced by a vertically integrated firm. (4marks)

b)"The antitrust laws serve to penalize efficiently managed firm". Discuss. (3marks)

c) A firm sells in two markets and has constant marginal costs equal of production equal to Kshs.2 per unit. The demand and marginal revenue equations for two markets are as follows:

Market1   Market2

$P_1=14-2Q_1$ $P_2=10-Q_2$

$MR_1=14-4Q_1$ $MR_2=10-2Q_2$

i) Using third degree price discrimination, find the profit maximizing prices and quantities in each market. (4marks)
ii)Show that greater profits result from price discrimination than would be obtained if a uniform price were asked. (4marks)

QUESTION FIVE
a)i. Explain how price leadership might evolves and function in an oligopolistic industry. (4marks)
ii. Is cost-plus pricing compatible with collusion? (3marks)
b) Differentiate between countervailing power and ordinary competition. (4marks)
c) Discuss main objectives of the firm. (4marks)

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