



MAASAI MARA UNIVERSITY
REGULAR UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER

SCHOOL OF ARTS & SOCIAL SCIENCES
BACHELOR OF SCIENCE IN AGRICULTURAL
ECONOMICS & RESOURCE MANGEMENT

COURSE CODE: AGB 2206

COURSE TITLE: INDUSTRIAL ORGANIZATION AND
PUBLIC POLICY

DATE: 2ND MAY, 2018

TIME: 0830 - 1030 HRS

INSTRUCTIONS TO CANDIDATES

- Question ONE is compulsory
- Answer any other THREE questions

*This paper consists of **TWO** printed pages. Please turn over*

QUESTION ONE.

The firms in Iowa and Minnesota were not alone. By 1997, the whole dairy industry was reeling from the shock of 134 milk price-fixing cases: some 70 dairies and 59 individuals had been convicted, incurring fines and damages of about \$70 million. Worse, 29 individuals had received prison terms. So what did all these firms and individuals do wrong? It all started with schools. School districts, finding it easier to deal with just one firm instead of several, invited several dairies to bid for the privilege of supplying milk throughout the school year. These bids—the prices the dairies were willing to charge for their services—were sealed, so that each firm would know its own prices but not its rivals'. The school district would then award the contract to the lowest bidder. But some dairies (the guilty ones) rigged the bids. Instead of competing for the contracts by making their best offer, the guilty dairies agreed not to compete. They got together among themselves, parceled out the school districts firm by firm, then coordinated the bids to make sure each firm won its assigned contracts—with the winning bid typically significantly higher than the competitive price.

- a) With reference to the above, discuss the importance of antitrust laws **(8 marks)**
- b) Discuss the four aspects of market structures **(8 marks)**
- c) Explain the meaning of Price fixing **(2 Marks)**
- d) Highlight the importance of market power on price differentiation **(7 Marks)**

QUESTION TWO

- a) Discuss the assumptions of the perfectly competitive model of market structures. **(8 Marks)**
- b) Explain how a firm can measure the gains from trade **(4 Marks)**
- c) Discuss the problems of assessing efficiency on the basis of changes in total surplus. **(3 Marks)**

QUESTION THREE

- a) Explain FOUR types of costs associated with the firm **(8 Marks)**
- b) Discuss economies of scale that a firm can enjoy through growth and expansion **(7 Marks)**

QUESTION FOUR

- a) Discuss the common forms of asset specificity **(8 Marks)**
- b) Distinguish between complete and Incomplete contracts **(2 Marks)**
- c) Discuss the disadvantages of incomplete contracts in a firm **(5 Marks)**

QUESTION FIVE

- a) Discuss the methods that are used to bar entry of new firms into an industry. **(10 Marks)**
- b) Explain the benefits that a firm with market power is likely to enjoy in the industry. **(5 Marks)**

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