



OFFICE OF THE DEPUTY PRINCIPAL
ACADEMICS, STUDENT AFFAIRS AND RESEARCH

UNIVERSITY EXAMINATIONS

2020 /2021 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER REGULAR
EXAMINATION

**FOR THE DEGREE OF BACHELOR OF
ECONOMICS**

COURSE CODE: ECO 425

COURSE TITLE: INDUSTRIAL ECONOMICS

DATE: 20TH JULY, 2021

TIME: 1:00PM- 4:00PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 3 PRINTED PAGES

PLEASE TURN OVER

REGULAR – MAIN EXAM

ECO 425: INDUSTRIAL ECONOMICS

STREAM: BA ECONOMICS

DURATION: 3

Hours

INSTRUCTIONS TO CANDIDATES

- i. Answer *Question ONE* and any other *TWO* questions.
- ii. Maps and diagrams should be used whenever they serve to illustrate the answer.
- iii. Do not write on the question paper.

SECTION A**Question One**

- a. Clearly explain the meaning of the following terms as used in industrial economics
 - i. Market (2 marks)
 - ii. Firm (2marks)
 - iii. Price discrimination (2 marks)
 - iv. Transaction cost (2 marks)
 - v. Market power (2 marks)
- b. Highlight any five reasons as to why a business has to define its market. (5 marks)
- c. Explain any five factors that define a given market structure. (10 marks)
- d. Suppose a monopolist faces two markets with demand curves given by: $D_1(p_1) = 100 - p_1$ and $D_2(p_2) = 100 - 2p_2$ Assume $MC = 20$,
If monopolist can price discriminate, what price should it charge in each market in order to maximize profits? (5 marks)

Question Two

- a. Clearly discuss the transaction cost theory of the firm. (10 marks)
- b. Briefly explain the reasons why most firms spend a lot of resources in advertisement of their products (10 marks)

Question Three

- a. Compare and contrast the behavior of monopoly and monopolistic competition firms. (10 marks)
- b. Using a well labeled diagram explain the inefficiency of the monopoly (5 marks)
- c. State factors that create monopolies (5 marks)

Question Four

- a. Differentiate between market conduct and market performance (4 marks)
- b. Explain why a firm would opt to indulge in mergers? (6 marks)
- c. Using appropriate figures explain the behavior of firms operating under perfect competition that lead to zero profits eventually. (10 marks)

Question Five

- a. Using illustrations, explain the concept of forward and backward vertical integration. (6marks)
- b. Clearly explain the motives for (i) lateral diversification and (ii) conglomerate diversification. (14marks)