



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**THIRD YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF ARTS IN ECONOMICS WITH
INFORMATION TECHNOLOGY**

MAIN CAMPUS

AEC 316: INDUSTRIAL ECONOMICS

Date: 13th June, 2017

Time: 12.00 - 3.00 pm

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.



Question One

- a) Suppose a firm is facing the following demand function

$$P = 100 - 2Q, \text{ such that } AC = MC = 20$$

Determine the equilibrium levels of a firm under perfect competition (4 Marks)

- b) Explain the conditions of short run equilibrium of a firm under perfect competition (6 Marks)

- c) Suppose a firm is operating under perfectly competitive conditions in a market in the short run. It faces the following revenue and cost conditions,

$$TR = 12Q$$

$$TC = 2 + 4Q + Q^2$$

Determine the equilibrium level of output and total output made. (7 Marks)

- d) Using suitable diagram, describe how a monopolist can achieve a profit in uncompetitive markets (5 Marks)

- e) Outline the features of a market under monopolistic competition (3 Marks)

Question Two

- a) Consider the following demand functions

i) $P = 4$

ii) $P = 100 - 4Q$

iii) $P = 1 + \frac{3}{2}Q - \frac{4}{3}Q^2$

Calculate total, average and marginal revenue for each demand function and at what point is total revenue is maximized in each case (6 Marks)

b) Show that;

$$MP = P \left(1 - \frac{1}{e} \right)$$

Where e = point price elasticity (5 Marks)

c) Using suitable graph, show how MR and TR depend on price elasticity (4 Marks)

Question Three

Firms may produce homogenous or differentiated products. Using suitable illustrations, discuss the major objectives of a firm

(15 Marks)

Question Four

a) Given the demand curve $Q = 12 - 2P$, find the output and price that will maximize total revenue (6 Marks)

b) Discuss the role of industrial economics in developing countries (9 Marks)

Question Five

Compare and contrast between partial equilibrium analysis and general equilibrium analysis of pricing (15 Marks)

Question Six

a) Explain the eventual rise in long run average curves (5 Marks)

b) Describe different types of external economies (10 Marks)