



EMBU UNIVERSITY COLLEGE

(A Constituent College of the University of Nairobi)

2015/2016 ACADEMIC YEAR

SECOND SEMESTER EXAMINATION

**SECOND YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE
(AGRIBUSINESS MANAGEMENT)**

AEB 212: INDUSTRIAL ORGANISATION.

DATE: APRIL 11, 2016

TIME: 02:00-04:00

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions

QUESTION ONE

- a) As long as consumers are willing to pay a positive price for the good; the more the quantity that will be produced, and the greater the total surplus from trade. Explain. (5 Marks)
- b) Mlamlo Inn is a food production business in a busy market. Mary the owner sources for food items from her farm. The hotel premise is hired at Kshs. 7,000 per month. The inn produces 50 servings of Ugali per day, 40 servings of vegetables per day and 100 cups of tea per day. She remunerates her waiters on a commission based on the number of servings sold. She has two cooks employed on a monthly salary of Kshs. 12,000 each and an overtime of Kshs. 200 per hour. Answer the following questions:
- i) Using two examples from Mlamlo Inn, define variable costs. (3 Marks)
 - ii) Using two examples from Mlamlo Inn, define fixed costs. (3 Marks)

- iii) The total cost of producing all servings of Ugali in a day is Kshs. 1,400, Githeri Kshs. 800 and tea Kshs. 700. Assuming the costs for Ugali production are constant. Compute the marginal cost of producing Ugali. (2 Marks)
- iv) Define marginal cost. (2 Marks)
- v) If Mary hopes to make a profit of exactly 20% above the average cost of producing each food item, at how much will each serving of Ugali, Githeri and Tea be priced? (5 Marks)
- vi) Differentiate horizontal differentiation from vertical differentiation. (4 Marks)
- c) Using relevant examples in Agribusiness, define the following concepts:
- i) Consumer surplus (2 Marks)
- ii) Producer surplus (2 Marks)
- iii) The cost of producing z jars of jam per day for a farmer is
- $$C_{(z)} = 200z + 600 \text{ shs.}$$
- The cost of producing y jars of wax per day for the farmer is
- $$C_{(y)} = 80y + 176 \text{ shs.}$$
- Derive the total cost to the farmer if they produce no jam and no wax for 14 days. (3 Marks)

QUESTION TWO

- a) Define the term linear function. (2 Marks)
- b) Using linear equations, identify and describe three types of function that a manager can apply in decision making in a production company. (9 Marks)
- c) Describe any five types of market structures using examples in Kenya. (10 Marks)

QUESTION THREE

- a) Briefly describe the choice that a firm has in relation to price competition versus quantity completion. (5 Marks)
- b) Explain five reasons for the merger and acquisition of companies. (10 Marks)
- c) Briefly explain any five characteristics of a cartel. (5 Marks)

QUESTION FOUR

- a) Briefly explain the dimensions of elasticity in an active market economy. (7 Marks)
- b) Explain the three types of price discrimination. (6 Marks)
- c) The table below shows represents a cost matrix for different advertising channels adopted by two companies. In advertising the two companies aim at minimizing costs.

		ABC Co. Ltd	
		Radio	Television
XYZ Co. Ltd.	Radio	7,7	12,2
	Television	2,12	9,7

- i) Define the term advertising as used in industrial organisation. (2 Marks)
- ii) Determine the Nash equilibrium. Explain your answer. (5 Marks)

QUESTION FIVE

- a) Briefly describe three theories of oligopoly behaviour. (8 Marks)
- b) Discuss various barriers to entry that may exist in a perfectly competitive market structure. (12 Marks)

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