



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2015/2016

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

CITY CAMPUS AND MAIN CAMPUS

AEC 303: ECONOMICS FOR DECISION MAKING

Date: 3rd May, 2016

Time: 11.00 - 1.00 pm

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Question ONE carries 30 marks. Other questions carry 20 marks.



- Q1. a) Describe 2 main aspects of multiproduct cost function in a firm dealing with many products. [6 Marks]
- b) Discuss how the following pricing decision strategies can be used in firm to maximize their returns.
- i) Extracting surplus from consumers [8 Marks]
 - ii) Special cost and demand structures. [8 Marks]
 - iii) Markets with intense price competition. [8 Marks]
- Q2. a) Market power, externalities, public goods and incomplete information are source of market failures. Explain. [12 Marks]
- b) Suggest for the government solution to the each of the problems in (a). [8 Marks]
- Q3. a) Mazima Consultancy is in the process of procuring inputs for their new projects in Mombasa. Discuss with the management three methods used to procure inputs. [9 Marks]
- b) Firm size is an element of market structure. Explain two measures of industry concentration with relevant examples. [6 Marks]
- c) Describe Rothschild index as used to measure demand and market conditions. [5 Marks]
- 4.a) Kenya Power has a monopoly of supplying electricity in Kenya. Describe its potential the sources of monopoly power. [4 Marks]
- b) Discuss profit maximisation in the following oligopoly settings.
- i) Sweezy Oligopoly [8 Marks]
 - ii) Cournot Oligopoly [8 Marks]
5. Presence of uncertainty can have a profound impact on the ability of markets to efficiently allocate resources. Discuss four instances where this exhibited. [20 Marks]