



**A F R I C A**

**UNIVERSITY**

**COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES**

**NMEC 305 INDUSTRIAL ECONOMICS**

**END OF SEMESTER EXAMINATIONS**

**NOVEMBER 2024**

**LECTURER: MR T MASESE**

**TIME: 3 HOURS**

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**INSTRUCTIONS CANDIDATES**

1. Answer any FOUR questions
2. All questions carry equal marks
3. Start each question on a new page.
4. Show all workings where applicable

**QUESTION 1**

- a. The Structure-Conduct-Performance (S.C.P.) paradigm is a conceptual framework that links the structure of a market, the conduct of firms within that market, and the overall performance of the industry. Discuss. **(10 marks)**
- b. Write brief notes on the following concepts:
  - i. Principal-Agent Theory **(5 marks)**
  - ii. Managerial Theory of the firm **(5 marks)**
  - iii. Downie's Theory of the firm **(5 marks)**

## QUESTION 2

- a. Marris's theory is a managerial theory of the firm that combines elements of the growth and profit maximization objectives whilst Penrose's Theory views the firm as a bundle of resources and capabilities, which can be leveraged to drive growth and diversification. Discuss the two approaches to organisational behaviour. What are the key differences between these two theories of the firm? **(12 marks)**
- b. What is market concentration? Use the SCP paradigm to explain the main determinants of market concentration and the implications of market concentration on the behaviour or contact of the firm **(13 marks)**

## QUESTION 3

- a. Briefly explain each of the following measures of market concentration
  - i. Concentration Ratio (CR) **(3 marks)**
  - ii. Hirschman-Herfindahl Index (HHI) **(3 marks)**
  - iii. Entropy Index **(3 marks)**
  - iv. Dispersion method **(3 marks)**
  - v. Lerner Index **(3 marks)**
- b. What are the main sources of market power in an industry? Under what circumstances would a large market share identify market power? Under what circumstances would a large market share not a good indicator of market share? **(10 marks)**

## QUESTION 4

- a. Explain the following oligopolistic models;
  - i. Cournot model **(5 marks)**
  - ii. Stackelberg model **(5 marks)**
  - iii. Bertrand model **(5 marks)**

- b. Explain how the kinked demand curve faced by an oligopolistic firm is derived and why prices they face tend to be sticky (10 marks)

### QUESTION 5

- a. Contestable markets are a recent theory of market structure and is based on the effect potential new entrants have on price and output decisions. Discuss. (10 marks)
- b. Intel and Advanced Micro Devices (AMD) are the only two firms that produce central processing units (CPUs)—the brains—for personal computers. Both because the products differ physically and because Intel’s advertising “Intel Inside” campaign has convinced some consumers of its superiority, consumers view their CPUs as imperfect substitutes.

Consequently, the two firms’ estimated inverse demand functions differ:

$$p_A = 197 - 15.1q_A - 0.3q_I$$

$$p_I = 490 - 10q_I - 6q_A,$$

where price is dollars per CPU, quantity is in millions of CPUs, the subscript I indicates Intel, and the subscript A represents AMD. Each firm faces a constant marginal cost of  $m = \$40$  per unit. (Assume that firms have no fixed costs.). Solve for the Nash-Cournot equilibrium quantities and prices. (15 marks)

### Question 6

- a. Outline and discuss the main objectives and tools of industrial policy (15 marks)
- b. How do industrial policies impact small and medium-sized enterprises and what are challenges do governments face when implementing industrial policies? (10 marks)

**END OF EXAMINATION**

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