

The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND
LEADERSHIP/BACHELOR OF COMMERCE

BML 200/BCM 215 : MICROECONOMICS

DATE: AUGUST 2025

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

THE IMPACT OF MARKET STRUCTURES ON KENYA'S AGRICULTURAL SECTOR

Kenya's agricultural sector is one of the most crucial components of its economy, contributing approximately 33% of the country's Gross Domestic Product (GDP) and providing employment to millions of people, especially in rural areas. The agricultural industry is shaped by different market structures that influence production, pricing, and competition. While some parts of the sector operate under a perfectly competitive environment, others are dominated by monopolies and oligopolies that control pricing and distribution. Understanding these market structures is essential for designing policies that promote efficiency, protect farmers' interests, and ensure consumers have access to affordable agricultural products.

Small-scale farmers in Kenya operate within a perfectly competitive market, producing staple crops such as maize, beans, and vegetables. These farmers do not have significant control over prices, as they sell in markets where numerous other producers offer similar goods. The lack of differentiation and the large number of suppliers ensure that prices remain dictated by overall supply and demand forces. However, the reality of agricultural production means that small-scale farmers often experience challenges such as fluctuating crop yields, unpredictable weather patterns, and difficulties in accessing financing. As a result, many farmers struggle with low profits, price instability, and the inability to expand their production capacity.

On the other hand, agricultural processing industries such as sugar refining and dairy processing operate under oligopolistic and monopolistic market structures. Large firms such as sugar millers and milk processors hold significant market power, allowing them to dictate the prices they pay to farmers for raw materials and the prices they charge consumers for finished products. The Learner Index, a key measure of market power, highlights how dominant firms influence

pricing in these sectors. Oligopolistic behavior is evident in Kenya's tea and coffee export markets, where a few large companies control distribution channels and access to foreign markets. While these firms benefit from economies of scale and export capabilities, small-scale farmers often find themselves at the mercy of major processors who set purchase prices without much negotiation power.

The Kenyan government has attempted to regulate agricultural pricing through price controls on staple commodities such as maize and sugar to protect consumers from exploitation. While the intention behind price controls is to ensure affordability, they often lead to market inefficiencies, including shortages and reduced incentives for producers. Farmers may choose not to produce certain crops when price caps prevent them from earning sufficient profits, resulting in supply shortages that further strain the economy. The elasticity of demand and supply for agricultural products plays a significant role in determining market behavior. Staple foods such as maize, wheat, and rice tend to have inelastic demand because they are necessities, meaning that changes in price do not significantly alter consumption patterns. In contrast, luxury agricultural products such as flowers and export fruits exhibit elastic demand, where price variations influence consumer purchasing decisions.

Looking ahead, Kenya must adopt strategies that enhance its agricultural sector's efficiency while ensuring fair pricing and access to markets. Policymakers can promote regional integration to expand trade opportunities, foster innovation in agricultural production, and invest in economies of scale for small-scale farmers to improve their competitiveness. The application of game theory strategies in agricultural trade negotiations can help local producers secure better deals with major distributors while ensuring that the interests of farmers and consumers align with broader economic growth objectives. Balancing regulatory policies, improving market access, and addressing production inefficiencies will be key to building a more resilient and competitive agricultural sector in Kenya.

Source: Kenya National Bureau of Statistics (KNBS)

Required;

- a) Analyze the characteristics of market structures in Kenya's agricultural sector as stated in the case study

(10 Marks)

- b) Evaluate the role of oligopolistic firms in Kenya's agro-processing industry, using examples to illustrate their market power

(10 Marks)

- c) Assess the impact of price controls on Kenya's agricultural markets. How do price controls affect producers and consumers

(5 Marks)

QUESTION TWO

- a) Elasticity of demand varies significantly between staple foods and luxury agricultural goods due to differences in consumer behavior, market conditions, and economic factors. Examine three key determinants of elasticity for staple foods and luxury agricultural goods in Kenya

(9 Marks)

- b) Economic systems vary in their approaches to ownership, resource allocation, and market regulation. Explain three key differences between capitalism, socialism, and a mixed economic system

(6 Marks)

QUESTION THREE

- a) Mixed economic systems aim to balance the strengths of market-driven and government-led approaches. Evaluate five advantages and five disadvantages of a mixed economic system in addressing market failures

(10 Marks)

- b) Demand and supply are fundamental forces shaping economic activity. Analyze five key factors that influence both demand and supply in the economy of Kenya

(5 Marks)

QUESTION FOUR

- a) Consumer surplus and producer surplus are key indicators of market efficiency and welfare. Evaluate the concept of consumer surplus and

producer surplus in the context of Kenya's mobile telecommunications industry **(10 Marks)**

- b) Housing affordability and market stability are critical concerns in developing economies. Assess five key ways that changes in demand and supply affect housing prices in developing countries

(5 Marks)

QUESTION FIVE

- a) Economies of scale are essential for enhancing productivity and competitiveness in manufacturing. Discuss the role of economies of scale in improving the efficiency of Kenya's manufacturing sector

(10 Marks)

- b) Consumer surplus reflects the economic benefit consumers receive when they pay less for a good or service than they were willing to. Calculate the consumer surplus in Kenya's mobile data market, given the following conditions:

- i. Maximum willingness to pay per unit: **Ksh. 500**
- ii. Market price per unit: **Ksh. 300**
- iii. Quantity demanded: **1,000 units**

(5 Marks)

QUESTION SIX

- a) Game theory provides a powerful framework for analyzing strategic interactions among competing firms. Evaluate the application of game theory in understanding competition among firms in Kenya's banking sector **(10 Marks)**

- b) Understanding cost structures is essential for evaluating production efficiency. Calculate the average cost per unit for a firm that initially produces 500 units at a total cost of Ksh. 250,000 and subsequently increases production to 1,000 units at a total cost of Ksh. 400,000

(5 Marks)