**17 - THE THEORY OF THE FIRM**

***The topic entails ;***

* **Meaning and distinction between firm and industry;.**
* **Discuss factors that influence the decision on what to produce.**
* **Discuss the various costs of production and their derivation.**
* **Differentiate between small and large firms**
* **Discuss the various factors influencing location of firms; reasons for localization and delocalization.**
* **Explain meaning of economies and diseconomies of scale and how they influence production decisions of the firm.**
* **Explain the reasons for continued existence of small firms despite economies enjoyed by large scale firms.**
* **Discuss environmental implications on production activities.**

1 . Highlight **four** ways a trader benefits from localization of industries

2. State **four** factors that determine the size of a firm

3. Highlight **four** measures the government may take to promote delocalization in the country

4. Highlight **four** reasons why small scale businesses are popular in Kenya inspite of economies

of scale associated with large scale organizations

5. State **five** reasons for the existence of small firms in an economy

6. Give **four** ways in which a firm may achieve marketing economies of scale

7. The table below represents units of output and their cost of production. Find the values of

costs **A, B, C** and **D**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Units of output** | **Total fixed cost (TFC)** | **Total variable cost (TVC)** | **Total cost** | **Average fixed cost (AFC)** | **Average variable cost (AVC)** | **Average cost(AC)** | **Marginal cost (MA)** |
| 3 | 300 | 240 | A | 100 | 80 | 180 | 60 |
| 4 | 300 | 320 | 620 | 75 | B | 155 | 80 |
| 5 | 300 | 500 | 800 | C | 100 | 160 | 180 |
| 6 | 300 | 720 | 1020 | 50 | 120 | D | 220 |

1. The table below shows the total cost of a certain product at given output levels

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Output (units)** | 0 | 10 | 20 | 30 | 40 | 50 | 70 | 80 |
| **Total cost (Kshs)** | 300 | 380 | 470 | 550 | 620 | 680 | 730 | 770 |

At output of 50 units; determine

a) Total fixed costs

b) Average variable cost

c) Average total cost

d) Marginal cost

9. Give **four** reasons why a firm may choose to remain small despite the benefits of

expansion

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1. Highlight **five** reasons why a firm may be located near the market for its products

2. Explain **five** reasons why the government may adopt the delocalization policy of locating

3. Discuss **five** factors that may account for the existence of small firms in an economy

4. Explain **five** factors that determine the size of a firm

5. Explain **five** factors that determine the decision of a firm on what good sand services

to produce

6. Explain **five** circumstances under which a firm may be located near the source of raw

Materials

7. Outline any **five** reasons that account for the popularity of small scale retails in Kenya

8. Explain **five** factors that may account for the survival of small firms in an industry.