THE THEORY OF THE FIRM

1. - A pool of trained manpower from which the trader can record s killed labour.

   - Other complimentary firms are likely to develop alongside his own .
   - Firms offering supportive services may develop in the area.
   - A trader will benefit from the social amenities present in a localized area.
   - A trader can join other traders and work together ,hence taking advantage of large scale

     product.

2. (i) Volume of output /and sales

   (ii) Number of employees / labour force

   (iii) Total capital outlay/inputs

   (iv)Types/level of technology used

   (v) The size of plant/premises

   (vi) Type of product

3. (i) provision of cheap/free land in rural areas.

   (ii) Improving infrastructure in rural areas.

   (iii) Improving security in rural areas.

   (iv) Tax rebate/concession

4. (i) There are flexible

   (ii) They are easy to manage

   (iii) They require little capital to start

   (iv) No many risks are involved

   (v) Few legal formalities are followed

5. -Size/extent of the market

- Nature of the product
- Flexibility of the firm
- Simplicity of the organization
- Quick/fast decision maker
- Rising cost of product
- Few legal procedures

6. - Buying goods in large quantities
   - Selling goods in large quantities
   - Accessing ready moments for its produce
   - Retaining (widening its market)
   - Selling variety of goods
   - Market referred
   - Advertising

     *

7. A= Total cost

   =TFC + TVC

   = 300+240=540/=

   B=Average variable cost

   $= \frac{\text{Total variable cost}}{\text{Total units produced}}$

   $= \frac{320}{4} = \text{shs. } 80$

   C.= Average fixed cost

   $= \frac{\text{Total fixed cost}}{\text{Total units produced}}$

   $= \frac{300}{5} = \text{shs.}$

D.= Average cost

=Total fixed cost +TVC

=300+720

$= \frac{1020}{6} =$ shs. 170

8 . a) Total fixed costs at output of 50 units

Ksh. =300

b) Average variable costs [AVC]

$$AVC = \frac{TC - TFC}{Q}$$

$$= \frac{680 - 300}{50}$$

Kshs.7.60

c) Average total costs

$$ATC = \frac{TC}{Q}$$

$$= \frac{680}{50}$$

Kshs.13.60

d) Marginal costs

$$MC = \frac{\Delta TC}{\Delta Q}$$

$$= \frac{680\ 620}{50 - 40}$$

=Kshs. 6.00

9. - Where the market is small
- Nature of the product e.g. direct service
- To maintain simplicity of the firm
- For flexibility purposes
- For quick decision making
- To avoid high overheads costs
- Need to retain control
- Legal constraints

- Because of minimal risks faced
- Limited capital

THE THEORY OF THE FIRM

1. - When the finished products are bulky /heavy hence easy to transport to nearby markets.
   - When the finished products are perishable/fragile to avoid breakage e.g eggs
   - When the government policy requires firms to locate at the market.
   - When they offer personal services to the customers.
   - When the market and raw materials are found in one place.
   - When the firma want to have a full control of the market.
   - When a firm wants to reduce the cost of transporting/distributing finished products to the market.

2. - Reduced effects of occurrence of war

   -Provision of employment opportunities in rural area

   -Reduces rural urban migration

   -Encourages balanced regional development

   -Market for locally produced raw materials

3. -Lack of enough capital /small scale required small capital to start

   -Limited size of market

   -Nature of goods and services

   --Government policy

   -Small scale firms are easy to mange

   -Need for personal freedom

   -Need to be self-employed

5. (i) The number of employees- For example, large firms are usually associated with the employment of large number of workers who will adopt the concept of division of labour

(ii) Volume of output i.e. the size of a firm is assessed by the volume of its output. For this reason, a firm with high outputs is considered to be large

(iii) Capital invested – i.e. the size of a firm can be determined according to capital invested. The larger the capital the firm in terms of assets the larger the firm is

(iv) Floor area i.e. a firm with large floor area covered by premises is said to be relatively large

(v) Production methods- For example i.e. specialization and division and division of labour is largely associated with big firms. However, technology levels may also be incorporated here

(vi) Markets – For example, a firm with many branches all over the country can be used to be big because it serves so many customers

(v) Sales volume/turnover- the amount of sales that a firm within a given period of time determines the size of the firms

6. Factors determining the decision of a firm on what goods and services to produce;

- Whether the firm is product or market- oriented. Those that concentrate on the functions and quantities of a product are product- oriented while those that produce products that are meant to meet consumer needs are said to be market – oriented
- Level of completion – Firms should come up with products which consumers prefer in order to survive in a competitive market

- Level of technology – New inventions and innovations result in new products or improved products
- Financial viability – The cost of production and the expected returns should be considered to determine whether the product will be viable or not
- Management Role- The management of a firm has the responsibility to determine what to produce

7. Five circumstances under which a firm may be located near the source of raw materials ;

i) Where the raw material is bulky as compared to the final product

ii) Where the raw materials are perishable/ required while still fresh

iii) Where the raw materials are located near the product for the finished product

iv) Where the government policy requires that such firms be located at the raw materials source to reduce pollution

v) Where the raw materials are fragile

vi) Where the firm wants to ensure continuous production

vii) Where other firms pose a very high /stiff competition for the material

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

- they required little capital to start /easy t raise
- have few legal formalities to abide by during formation
- are highly flexible -may change from one form to another depending in profitable
- low government taxes-enabling them earn high profits
- have low risks/losses to bear incase of theft, fire out break etc
- have ready market-most f them located in densely populated areas/close to the customers

- have permanent market due to consumer loyalty brought about by close contact with customers
- sell fast moving goods hence no dead stock

9. Where the demand for the product is low than the firm serving the market would be small

- The size of the firm may be limited where initial investments requires would be very large and the firm may lack such funds
- The firm may also lack key factors of production such as land expansion and would thus remain small
- The nature of the product may also limit the size of the firm especially where such a firm offers personal services e.g. hair dressing and law firms
- The owner of the firm may wish to keep his firm small in order to retain control and independence
- The owner of the firm may wish to remain small so as to maintain flexibility in order to take advantage of any new opportunities
- Where the laws that restrict growth, then the firm would have to remain small
- Need for small capital