

## 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
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8. 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 and 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.