

Industrial Economics

★ Chapter 1 ★

Introduction

Part 1

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Q1: Define Industrial Economics?

- ✓ Industrial Economics is the study of firms, industries, and markets.
- ✓ It looks at firms of all sizes –from local corner shops to multinational giants .
- ✓ And it considers a whole range of industries, such as electricity generation, car production, restaurants and service sectors.
- ✓ In economic literature, it is known by several names with marginal differences such as ‘Economics of Industries’, ‘Industry and Trade’, ‘Industrial Organization and Policy’, ‘Commerce’ and ‘Business Economics’ etc.

Q2: Which issues Industrial Economics helps us to understand when analyzing decision making?

- The levels at which capacity, output, and prices are set.
- The extent that products are differentiated from each other.
- How much firms invest in research and development (R&D)?
- How and why firms advertise?
- How firms employ?
- How firm negotiate to pay wages as well as how they settle disputes?
- How firms can grow the market share?

Q3: What is the scope of Industrial economics?

- ✓ Deals with the economic problems of firms and industries, and their relationship with society.

There are two broad elements of industrial economics:

The descriptive element

The business policy and decision-making

1- The descriptive element

- ✓ is concerned with **the information content** of the subject.
- ✓ It deals with the information about the competitors, natural resources, factors of production and government rules and regulations related to the concerned industry.

2- The business policy and decision-making

- ✓ This is **the analytical part** dealing with topics such as market analysis, pricing, choice of techniques, location of plant, investment planning, hiring and firing of labour, financial decisions, product diversification and so on.

1.What is the primary focus of Industrial Economics?

- a. The study of environmental impacts of industries
- b. The study of firms, industries, and markets
- c. The study of global warming effects
- d. The study of historical industrial developments

2. What aspect of firms does Industrial Economics helps us understand?

- a. How firms maximize environmental sustainability
- b. How firms manage financial audits
- c. How firms employ and grow the market share.
- d. How firms improve employee happiness

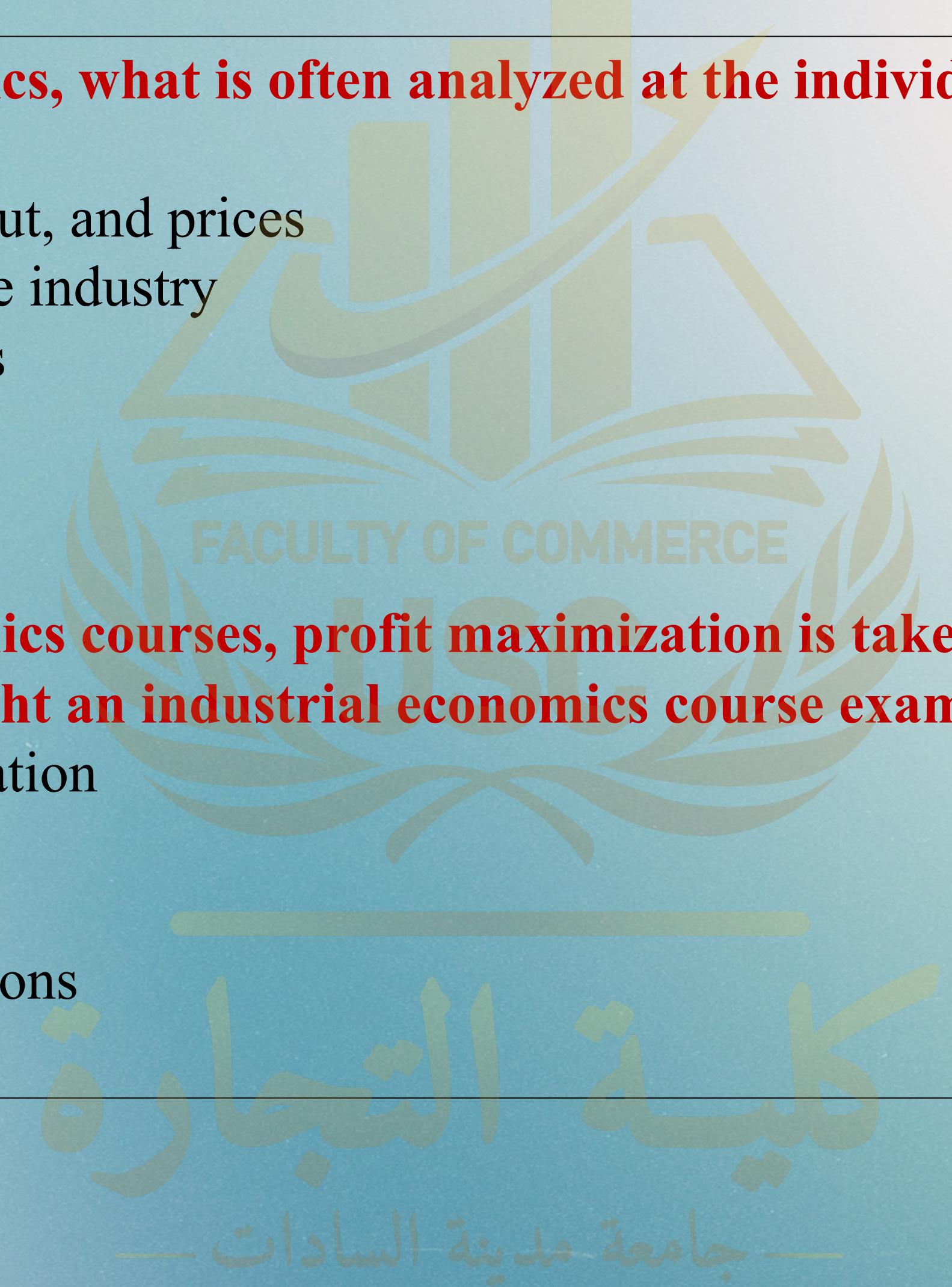
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3- In Industrial Economics, what is often analyzed at the individual firm and industry level?

- a. Levels of capacity, output, and prices
- b. Political influence in the industry
- c. Historical growth trends
- d. Cultural impacts

4. In many microeconomics courses, profit maximization is taken as given. What alternative objective might an industrial economics course examine?

- a. Environmental conservation
- b. Employee satisfaction
- C. Market share growth
- d. Philanthropic contributions



Q4: What is the methodology of industrial economics (Approaches)?

1. The first approach is primarily descriptive and provides an overview of industrial organization.
2. The second, price theory, uses microeconomic models to explain firm behaviour and market structure.
3. The third approach is oriented to public policy as to economic regulation, and the economic governance of law in defining property rights.

Q5: What is the industrial structure elements?

1- Rivalry Intensity

2- Ease of Entry

3- Availability of Substitutes

1- Rivalry Intensity

- ✓ Some firms exist in industries with intense rivalry levels (Competition Market).
- ✓ It is usually difficult for companies to dramatically increase profits or lowering prices in this type of industry.
- ✓ Lower prices may set off price wars, furthering diminishing profitability.
- ✓ Firms are usually larger, so Smaller firms may have been forced out because of their inability to compete.
- ✓ Larger companies usually enjoy lower cost structures because of economies of scale.

2- Ease of Entry

- ✓ The **ease of entry** is greatest in new industries.
- ✓ New industries also provide the best **profit** opportunities for smaller businesses.
- ✓ **Sales** are usually strong in a new industry because demand is relatively high among consumers.
- ✓ A smaller competitor may even be **the industry leader**, especially if it created a new technology or product.
- ✓ In contrast, industries that are difficult to enter have a negative impact on profits.

3- Availability of Substitutes

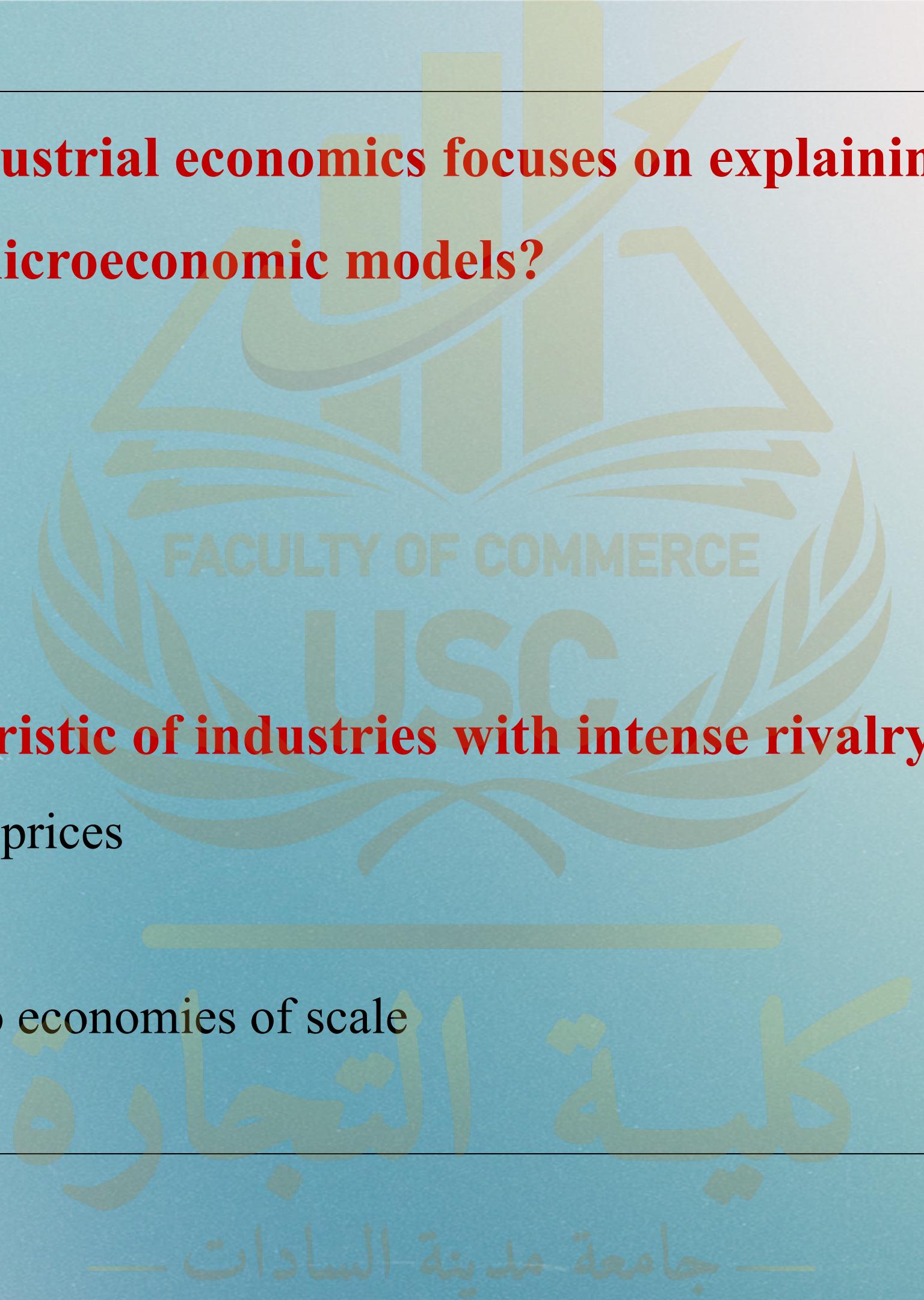
- ✓ Consumers will pay higher prices for certain products if no substitutes exist.
- ✓ Hence, companies in the industry earn greater profits.
- ✓ For example, pharmaceutical companies possess 20-year patents on new drugs.
- ✓ This means companies cannot manufacturer generic substitutes for two decades.
- ✓ Conversely, consumers may seek cheaper substitutes when available, and this which has a negative impact on profits.

5. Which approach to industrial economics focuses on explaining firm behavior and market structure using microeconomic models?

- a. Descriptive approach
- b. Price theory
- c. Public policy approach
- d. Structural analysis

6. What is a key characteristic of industries with intense rivalry levels?

- a. High flexibility in lowering prices
- b. Many small competitors
- c. Lower cost structures due to economies of scale
- d. can increase profits



7. What advantage do smaller businesses have in new industries?

- a. Established market presence
- b. Lower operational costs
- c. High demand and potential for leadership
- d. Limited competition

8. Which element is NOT a part of industry structure?

- a. Rivalry intensity
- b. Ease of entry
- c. Availability of substitutes
- d. Regulatory compliance

Q6: What is the meaning of industrialization?

The word **industrialization** is generally used in two senses

A narrow sense

- ✓ Industrialization refers to establishment and development of basic and manufacturing industries.
- ✓ Its main objective is to increase the general living standard by increasing efficiency and capacity of factors of production.

A wider sense or larger perspective

- ✓ Under industrialization, not only basic and manufacturing industries are established but through this medium the changes in the entire economic structure of the country is carried out.

Q7: List the Objectives of industrialization?

- ✓ The **main objective** of industrialization is to equally develop the overall factors of development of the economy.
- ✓ **Other objectives include the following:**
 1. Promote economic efficiency and growth
 2. Bring about a structural shift in the economy in favour of industry
 3. Promote balanced regional development
 4. Promote the inter and intra-sectoral linkage

5. Create a sound base for the development of technology.
6. Develop and achieve international competitiveness in areas of clear comparative advantages in industrial exports.
7. Generate employment opportunity.
8. Develop domestic technological capability for the production of intermediate inputs, outputs and capital goods.

Q8: what are the characteristics of industrialization?

1. Transfer of sources of production:

- ✓ The factors of production transfer resources from primary sector (agriculture sector) to manufacturing industries and to services in tertiary sector as a result of industrialization.

2. Deepening and widening use of capital:

- ✓ Industrialization is a process of deepening and making extensive use of capital.
- ✓ It reduces per unit cost of production and increases the profit potentiality of enterprises.

3. Development of new process:

In the process of industrialization number of new process take place, like the development of new product and new market.

4. Social changes:

- ✓ By enabling the society to adopt modern and dynamic approach instead of traditional one.
- ✓ It develops the standard of education and reduces various constraints of society.

5. Economic development of the country:

Industrialization creates equal development of all the sectors in the country.

9. What is industrialization in its narrow sense?

- a. Establishment and development of basic and manufacturing industries
- b. Structural shift in the economy in favor of agriculture
- c. Promotion of international competitiveness in service sectors
- d. Development of cultural institutions

10. Which of the following is an objective of industrialization?

- a. Increase in agricultural land
- b. Promote economic efficiency and growth
- c. Preserve traditional societal structures
- d. Limit technological advancements

11. What is one of the characteristics of industrialization?

- a. Reduction in manufacturing output
- b. Transfer of resources from manufacturing to agriculture
- c. Deepening and widening use of capital
- d. Decrease in societal education standards

12. How does industrialization contribute to economic development?

- a. By only focusing on agricultural advancements
- b. By creating equal development across all sectors
- c. By reducing the need for technological adaptation
- d. By limiting employment opportunities

13. What societal change is associated with industrialization?

- a. Reinforcement of traditional approaches
- b. Reduction in the standard of education
- c. Adoption of modern and dynamic approaches
- d. Decrease in urbanization



Thank you!

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