# KABARAK UNIVERSITY

## UNIVERSITY EXAMINATIONS

### 2010/2011 ACADEMIC YEAR

## FOR THE DEGREE OF MASTER OF BUSINESS

## ADMINISTRATION

**COURSE CODE:** ECON 520

**COURSE TITLE: MANAGERIAL ECONOMICS**

**STREAM:** MBA – S2

**DAY:** MONDAY

**TIME:** 4:00 – 7:00 P.M.

**DATE:** 20/12/2010

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**INSTRUCTIONS:**

1. Answer question **ONE** and any other **THREE** questions
2. Write your registration number clearly, show your workings where vital, be neat and to the point.

**PLEASE TURNOVER**

**QUESTION 1**                                                      (**Total marks 30**)

i. As a consultant in progressive managerial issues, advise decision – makers on the importance of the objectives of a up to date enterprise and expound on any 2 of the objectives, giving them a critical view on the difference between profitability and profit of the enterprise.                                                      (**10 marks**)

ii. Given the schedule below where L is labour that is sold at 9 KES and K is capital that is sold at 6 KES.  Find combined cost and advise the proprietor on the least cost combination point.                                                      (**10 marks**)

| S/No. | Combination inputs (Units) | | Costs in Kenya Shillings) |
|---|---|---|---|
| | **L (Labour)** | **K (Capital)** | |
| 1 | 3 | 20 | |
| 2 | 4 | 13 | |
| 3 | 5 | 10 | |
| 4 | 6 | 8 | |
| 5 | 7 | 6 | |
| 6 | 8 | 5 | |
| 7 | 9 | 4 | |
| 8 | 10 | 3 | |
| 9 | 11 | 2 | |
| 10 | 12 | 1 | |

iii. Compare and contrast a perfect competition and imperfect competition market conditions.
                                                      (**10 marks**)

**QUESTION 2**                                                      (**Total marks 10**)

Assume that company XYZ has the following cost structure for its products and considering whether to export or not.

| Cost per unit of production | Kshs |
|---|---|
| Labour | 20 |
| Materials | 30 |
| Overheads (per unit of product) | <u>40</u> |
| Total cost per unit | <u>90</u> |

It also known that the net export price the company can earn is Kshs. 80 per unit, and the current production capacity of the firm is in excess of its local consumption by 10, 000 units.

i. With the assistance of the above information advise the management on whether to export or not and if it  was to export work out the export revenues.                 (**6 marks**)

ii. Explain the law of supply and describe any 3 reasons for the upward sloping supply curve.
                                                      (**4 marks**)

**QUESTION 3**                                                    (**Total marks 10**)

i.   Given are demand and supply equations of a kilo of rice in "Supira" supermarket:
     $Q_d = 140 - 0.5p$ and
     $Q_s = 80 + p$

a)   Use the above given two equations to estimate the equilibrium price and quantity of rice.                                                                 (**2 marks**)

b)   Use a diagram to show the equilibrium quantity and price of the same rice.

                                                                   (**2 marks**)

c)   Assume the following to be the demand function facing an enterprise:
     a.   $P = 12 - 0.4Q$ and its total cost function is
     b.   $C = 5 + 4Q + 0.6Q^2$.

     Use the two functions above to determine the best price for the enterprise if the objective of the manager is to maximise the current profit.            (**2 marks**)

ii. Describe the following concepts separately:
     a)   Income – elasticity of demand
     b)   Price elasticity of supply                             (**2 marks**)

iii. Do these concepts of elasticity provide any useful information to management? (**2 marks**)


**QUESTION 4**                                                    (**Total marks 10**)

Gila Hotel has a single 100 – seat restaurant, for which the annual revenue is 2.16 million Kenya shillings and expenses are 1.08 million Kenya shillings in wages and salaries and 648, 000 Kenya shillings in produce, other supplies and utilities. The restaurant seating area occupies 1000 square feet while the kitchen occupies 400 square feet. Management consultants M&M Consultants Ltd have recommended that Gila Hotel reduce the restaurant to 500 square feet, with room for 50 seats. The Consultant Enterprise proposes that Gila lease the 500 square feet extra space to a florist at 20 Kenya shillings per square foot per month.

(i)   Which of the following best describes the potential rental income form the florist:

a)   Fixed cost
b)   Variable cost
c)   Opportunity cost?

(ii)  Suppose that M&M's proposal would reduce the restaurant's revenue and expenses by 40 percent. Prepare an income statement showing the two options – current operations and M&M's plan.

(iii) M&M further recommends that Gila introduce room service to serve some of the gusts who would presently eat in the restaurant. Now, The M&M plan would only reduce the restaurant's revenue and expenses by 20% relative to the current situation. Should Gila adopt the plan?

(iv)  The same kitchen can support both room service and restaurants. Does this illustrate economies of scale or scope?

**QUESTION 5**

**(Total marks 10)**

i.  Discuss any 3 ways of resolving externalities in management. **(6 marks)**

ii. In some economies, betting shops are allowed in general retail areas. A betting shop can attract a large volume of customers, who may spill over to other nearby businesses. On the other hand, the presence of a betting shop may hurt toy shops and other business that target ladies and children.

a)  What rent would the owner of a shopping mall charge to a betting shop as compared with a bank?

b)  Do you expect to find relatively more betting shops in malls or in open streets?

**(4 marks)**

**QUESTION 6** **(Total marks 10)**

Newspapers are circulated through both newsstands and subscriptions. They get revenues from both selling the publication and advertising. Many likewise publish their contents via the World Wide Web.

a)  The larger a title's circulation, the more its publisher can charge for advertising.

How should a publisher take account of this factor in setting the cover price of a magazine?

b)  From the standpoint of the reader, what are the differences between buying at a newsstand and through subscription?

How should publisher prices subscriptions relative to newsstand sales?

c)  The Web edition is particularly beneficial to business executives who travel frequently and subscribers in locations that are poorly served by mail delivery from the printers of the newspapers. Should a newspaper provide the Web edition free to subscribers or levy an additional charge for it?