KABARAK   UNIVERSITY

UNIVERSITY EXAMINATIONS

2009/2010 ACADEMIC YEAR

FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: ECON 520

COURSE TITLE: MANAGERIAL ECONOMICS

STREAM: **MBA – S2**

DAY: **MONDAY**

TIME: **5:30 – 8:30P.M.**

DATE: **23/08/2010**

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 the contemporary management issues, advise decision – makers on the importance of the objectives of any modern enterprise and expound on any 2 of the objectives
(**4 marks**)

ii. Discuss the 3 theoretical concepts that are crucial to managerial decision-making. (**6 marks**)

iii. with the assistance of the following demand function: $D_x = 2000 – 8P$
   a) Estimate the amount of quantity demanded at the price 50 Kenya shillings per unit.(**1 mark**)
      Further assume that D_x is given as 900 units,
   b) What would be the price charged per unit for that amount of quantity to be sold? (**1 mark**)
   c) Further estimate the price charged per unit for D_x of 300 units to be sold. (**1 mark**)
   d) Use results from (b) and (c) to test the compliance of the law of demand. (**1 mark**)
   e) Discuss the 3 survey methods of forecasting. (**6 marks**)

iv. Below is a simple representation of a demand function of product X.
   $D_x = 1000 – 4p_x,$
   Where
   D_x stands for quantity demanded of product X
   P_x stands for price per unit of product X and
   4 is the coefficient and 1000 is a constant to the equation.

 With the assistance of the above demand equation,
 a) Estimate the amount of quantity demanded at a price of 100 shillings per unit of product x.
 b) Further assume D_x be 1200 units what would be the price charged per unit for that amount of quantity to be sold
 c) Further estimate the price charged for 300 unit to be sold, and
 d) Finally estimate the profit or loss of the enterprise based on 300 units and a total cost of 3000 Kenya shillings and advise the management accordingly. (**4 Marks**)

v. Compare and contrast a perfect competition and imperfect completion market conditions.
(**6 marks**)

QUESTION 2 (10 marks)

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)	40
Total cost per unit	90

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.
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.

QUESTION 3

Given are demand and supply equations of mandazis in the KABARAK Restaurant:
   $Q_d = 70 – 0.5p$ and
   $Q_s = 40 + p$
   i. Use the above given two equations to compute the price and quantity of Mandazis.(**2 marks**)
   ii. Use a diagram to show the equilibrium quantity and price of the same mandazis. (**4 marks**)

iii. 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. (**4 marks**)

QUESTION 4 (10 marks)

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%. Prepare an income statement showing the two options – current operation 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 (10 marks)

Recently Zain Kenya, a mobile telecommunication service provider dropped its calling rates to Ksh. 3 per minute (per second billing) and SMS reduced to Ksh. 1 per SMS. As a managerial economist expert advise the other service providers in the same industry accordingly.

QUESTION 6 (10 marks)

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.
  i. 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?
 ii. From the standpoint of the reader, what are the differences between buying at a newsstand and through subscription?
iii. How should publisher prices subscriptions relative to newsstand sales?
 iv. 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?