# JARAMOGI OGINGA ODINGA UNIVERSITY

# OF SCIENCE & TECHNOLOGY

## UNIVERSITY EXAMINATIONS 2012/2013

## 3$^{RD}$ YEAR 1$^{ST}$ SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

## (REGULAR)

**COURSE CODE: ABA 306**

**COURSE TITLE: MANAGERIAL ECONOMICS**

**DATE: 19/8/2013** **TIME: 11.30-1.30PM**

**DURATION: 2 HOURS**

**INSTRUCTIONS**

1. **This paper consists of 5 Questions.**
2. **Answer Question 1 (Compulsory) and any other 2 questions.**
3. **Write your answers on the answer booklet provided.**

**QUESTION ONE (COMPULSORY)**

(a) Outline an effective procedure to be followed by a marginal economist when making decisions. (10mks)

(b) Briefly outline the importance of managerial economics in making sound decisions. (10mks)

(b) Despite being argued that firms can achieve all other subsidiary objectives and goals easily only if they can Maximize their profits managers often set their persona l goals different from the goal usually pursued by business owners which is profit maximization. State ANY TEN factors that may lead managers into pursuance of other goals other than profit maximization. (10mks)

**QUESTION TWO**

(a) Profit maximization has been the prime objective of classical business organizations.

(i) How would you as a managerial economist react to a CEO's announcement that he wants in place an overall program to maximize profit. (5mks)

(ii) Suppose that the unit price of a commodity and the total cost of producing this commodity is defined by: $P = 100 - 2Q$ and $TC = 100 + 0.5Q^2$, where $Q$ is the total quantity of a commodity produced and eventually sold.

**Required:**

(i) Determine the profit maximizing level of output. (6mks)

(ii) Determine the proceeds realized by the firm as sales revenue. (4mks)

(ii) Determine the maximum profit registered by this firm and ascertain whether this is a maximized profit. (5mks)

**QUESTION THREE**

(a) It is the cost of production in relation to price that guides a firm to produce or not to produce, the quantities to produce and whether to increase or decrease production. Define the following in regard to costs

(i) Explicit cost (1mk)

(ii) Opportunity cost (1mk)

(iii) Short-run cost (1mk)

(b) (i) Given the cost function: $C = 1000 + 10Q^{1/2} + Q + 2Q^2$, where, Q is the quantity produced, derive the average and marginal cost function and further determine their values when the firms attain 5 units of output. (5mks)

(ii) A business firm is constrained to operate within some budget line yet it wants to produce maximally at a minimized cost. Advice. (4mks)

(c) A managerial economist of XYZ Company is concerned about the apparent fluctuation of inefficiency and wants to determine how production costs (Kshs) relates to labour hours employed. The following data presents results of 12 most recent months

| **MONTH** | **LABOUR HOURS EMPLOYED** | **PRODUCTION COST (Kshs.)** |
|---|---|---|
| January | 34 | 340 |
| February | 44 | 346 |
| March | 24 | 287 |
| April | 36 | 262 |
| May | 30 | 220 |
| June | 49 | 416 |
| July | 39 | 337 |
| August | 21 | 180 |
| September | 41 | 376 |
| October | 47 | 295 |
| November | 34 | 215 |
| December | 24 | 275 |

**Required:**
Estimate the production cost function using simple linear regression analysis method and further determine the labour hours that if employed would result into a production cost of 450 shillings (8mks)

**QUESTION FOUR**
(a) State the law of return to scale with regard to long run production. (1mk)
(b) Suppose a firm has to supply a combined order of 500 units of produce $x$ and $y$. The joint cost function of the two products is given by:

$$C = f(x, y) = 100x^2 + 150y^2$$

Find the combination of $x$ and $y$ that minimizes the cost of production. (8mks)

(c) If Econometric forecasting is the best forecasting technique in business, what usefulness (If any) remains for other techniques in business analysis. (11mks)

**QUESTION FIVE**
(a) Explain the conditions that must be fulfilled in order to permit monopoly practice price discrimination. (7mks)

(b) A certain car manufacturer regards his business as highly competitive because he is keenly aware of his rivalry with other few car manufacturers in the market. Like other car manufacturers, he undertakes vigorous advertisement campaign seeking to convince potential buyers of the superior quality and better style in his product and reacts very quickly to claims of superiority by the rivals. Is this the meaning of perfect competition? Why? (13mks)