W1-2-60-1-6

JOMO KENYATTA UNIVERSITY

OF

AGRICULTURE AND TECHNOLOGY

University Examinations 2015/2016

FOURTH YEAR FIRST AND SECOND SEMESTER EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

HCOB 2505: PRODUCTION ECONOMICS

DATE: APRIL 2016   TIME: 2 HOURS

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO
                 QUESTIONS

Question One (30 Marks)

a)   In many managerial decisions the exact outcome of a given cause of action is usually uncertain due to a number of economic conditions in firm and industry, discuss five (5) reasons.   (10 Marks)

b)   Define the following terms:

   (i)   Risk   (2 Marks)

   (ii)   Certainty   (2 Marks)

   (iii) Isocost   (2 Marks)

   (iv)   CVP   (2 Marks)

c)   ABC is considering investing in two mutual exclusive projects by investing Kshs. 80,000 and Kshs. 120,000 in Project A and B respectively.
     Assume that the cost of capital is 6% advice management on which project is viable if the expected cashflows from the two projects for the next six years is as follows:

Year	Project A	Project B
1	10,000	15,000
2	12,000	26,000
3	14,000	40,000
4	15,000	50,000

5	8,000	40,000
6	6,000	32,000

Get:

(i)   Pi   (4 Marks)

(ii) IRR   (4 Marks)

(iii) Payback period   (4 Marks)

d)   Explain your answer.   (2 Marks)

Question Two (20 Marks)

a)   ABC Manufacturers sells furniture items whose cost per unit is Kshs. 0.75and selling price per unit is Kshs. 1. The fixed cost is 7.5 million:

Required:

(i)   Determine the output that the firm should produce to break even.   (2 Marks)

(ii) Suppose the firm targets a profit of 100,000 how much must it produce?
                                                                                         (4 Marks)

(iii) Suppose the selling price changes to Kshs. 1.25 and cost per unit changes to Kshs. 0.9. Comment on what will happen to the BEP.   (4 Marks)

b)   You are given the following total revenue and total cost function of a firm:

$$TR = 45Q - 0.5Q^2$$
$$T.C = Q^3 - 8Q^2 + 57Q + 2$$

Required:

Determine the level of output to produce inorder to maximize the profits.   (10 Marks)

Question Three (20 Marks)

a)   Discuss the three (3) levels of Long Run analysis of production.   (8 Marks)

b)   Using a diagram discuss the classical production function displaying the relationship between input and output in the short run.   (12 Marks)

Question Four (20 Marks)

a)   State and explain the four (4) factors of production.   (8 Marks)

b)   Highlight six (6) factors that affect mobility of labour.   (6 Marks)

c)   Discuss three (3) cost implications of unemployment in an economy.   (6 Marks)

Question Five (20 Marks)

a)   Explain ethics in relation to production, pricing, hiring and promoting in an
        organization.   (6 Marks)

b)   Explain how the character and personality of a manager influences business
        productivity.   (9 Marks)

c)   Identify and explain factors that have led to the evolution of business ethics.
                                                                               (5 Marks)