

UNIVERSITY OF EMBU

2016/2017 ACADEMIC YEAR

FIRST SEMESTER EXAMINATION

THIRD YEAR EXAMINATION FOR BACHELOR OF SCIENCE AGRIBUSINESS MANAGEMENT DEGREE

AEB 303: MANAGERIAL ECONOMICS

DATE: DECEMBER 6, 2016	TIME: 8:30-10:30AM	
INSTRUCTIONS:		
Answer Question ONE and ANY other TWO Questions		
QUESTION ONE (30 MARKS)		
a) Briefly explain the concept of economic efficiency	(3 marks)	
b) One of the common errors in economic theorizing is the fallacy of composition. Citing an example		
briefly explain what is the fallacy of composition.	(5 marks)	
c) Explain the term Managerial Economics.	(3 marks)	
d) Briefly explain the role of macroeconomic policy as	y explain the role of macroeconomic policy as a government intervention tool in market	
economies.	(5 marks)	
e) Briefly discuss the role of profit in efficient resource allocation in a purely capitalist system.		
	(5 marks)	
f) The market demand and supply equations for a product a	re	

 $Q_D = 25-3P$



$$Q_S = 10 + 2P$$

Where Q is quantity and P is price.

a) What is the equilibrium price for this product? (2.5 marks)

b) What is the equilibrium quantity for this product? (2.5 marks)

g) Citing an example explain the term opportunity cost. (4 marks)

QUESTION TWO (20 MARKS)

a) Consider the following demand and supply equations for the product of a perfectly competitive industry:

 $O_{D} = 25 - 3P$

 $Q_{S}=10+5P$

i. Determine the market equilibrium price and quantity algebraically. (4 marks)

ii. Suppose that government regulatory authorities imposed a "price floor" on this product of P = \$4. What would be the quantity supplied and quantity demanded of this product? (4 marks)

iii. How would you characterize the situation in this market? (2 marks)

b) Explain one alternative theory to the neoclassical theory based on the assumption of profit maximization. (6 marks)

c) State the law of diminishing marginal returns and give an example in agricultural production.

(4 marks)

OUESTION THREE (20 MARKS)

a) Explain what is the owner-manager/principal-agent problem. (4 marks)

b) Briefly discuss one solution to the owner-manager/principal-agent problem. (3 marks)

c) Briefly explain the broad categories of scarce productive resources. (8 marks)

d) With the use of relevant examples explain the economic concept of externalities. (5 marks)

QUESTION FOUR (20 MARKS)

Adam is the owner of a small grocery store in a busy section of Nairobi. Adam's annual revenue is \$200,000 and his total explicit cost (Adam pays himself an annual salary of \$30,000) is \$180,000 per year. A supermarket chain wants to hire Adam as its general manager for \$60,000 per year.



(i)	What is the opportunity cost to Adam of owning and managing the grocery store?	(6 marks)
(ii)	What is Adam's accounting profit?	(7 marks)
(iii)	What is Adam's economic profit?	(7 marks)
QUESTION FIVE (20 MARKS)		
a)	Briefly discuss normal profit in the context of economics.	(6 marks)
b) Briefly explain the following terms as they relate to the theory of games:		
(i) Strategic behavior	(2 marks)
(ii) Simultaneous-move game	(2 marks)
(iii) Zero-sum game	(2 marks)
(iv	Non-cooperative game	(2 marks)
c)	Giving examples clearly distinguish between a public good and a private good.	(6 marks)

