



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2016/2017**

**THIRD YEAR SECOND SEMESTER EXAMINATIONS FOR THE  
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH  
INFORMATION TECHNOLOGY**

**CITY CAMPUS**

**ABA 306: MANAGERIAL ECONOMICS**

Date: 6<sup>th</sup> June, 2017

Time: 5.30 - 8.30 pm

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**INSTRUCTIONS:**

- Answer question ONE and any other THREE questions.
- Question one carries 25 marks, the rest 15 marks each.
- Marks will be awarded for being neat, clear and use of relevant illustrations.

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### **QUESTION ONE**

- (a) Discuss the basic functions of a manager and the importance of managerial economics to the business managers (9marks)
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- (b) What is demand forecasting? How is it important to firm managers? (7marks)
- (c) Explain the purpose of demand analysis from stand point of Management (5marks)
- (d) How is the concept of price and income elasticity useful to managers and government? (4marks)

### **QUESTION TWO**

- (a) Describe the stages of production of a firm and advise on the best stage for a firm to operate (6marks)
- (b) Explain cost-plus pricing strategy as used by firms and its limitations (4marks)

### **QUESTION THREE**

- (a) Suppose you are a manager of a firm earning Ksh. 250, 000 per month and you decide to open your business. Your revenue during the first year of operations is 120,000 and expenses are as follows:

Salaries	45,000
Supplies	15,000
Rent	10,000
Utilities	1000
Interest on loan	10,000

Calculate

- (i) Explicit and implicit costs (4marks)
- (ii) Business and Economic profit (4marks)
- (iii) Would you advice the manager to run his business or employ someone to help him? (2marks)
- (b) Explain the determinants of a firm's costs of production (5marks)

### **QUESTION FOUR**

- (a) Differentiate between a perfect and monopoly markets in terms of the demand curves facing them and their profit maximization conditions (6marks)

(b) A monopolistic firm has the following demand and cost functions

Demand function:  $P=100-2Q$

Cost function:  $C=50+40Q$

(i) Calculate the price and quantities that would maximize the profits of the firm (3marks)

(ii) Calculate the profit of the firm and prove that it is a maximum (6marks)

### QUESTION FIVE

(a) Explain the circumstances under which a business decision may be profitable (6marks)

(b) Discuss the determinants of demand for a good (6marks)

(c) Explain the law of variable proportions (3marks)

### QUESTION SIX

The LATEX Furniture Company manufactures tables and chairs as part of its line of furniture production. The table below show the data obtained from the Redwood Furniture problem.

Resources	Unit Requirement		Amount
	Table	Chair	
Wood (board sheet)	30	20	300
Labour	5	10	110

The owner wishes to determine the number of tables and chairs to be made to maximize the total profits.

#### Required:

Given the objective function of the firm to be  $6X_T+8X_C$ , where  $X_T$ =number of tables and  $X_C$  = number of chairs. Use linear programming technique to determine the optimal number of tables and chairs that will maximize the firm's profit and sketch a graphical solution for your answer. (15marks)