



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**THIRD YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF ARTS IN ECONOMICS WITH
INFORMATION TECHNOLOGY**

CITY CAMPUS

AEC 303: ECONOMICS FOR DECISION MAKING

Date: 5th June, 2017

Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.



QUESTION 1

a) Nyamakima holdings has opened a new manufacturing plant in Nyahururu producing orange juice extracts for further exports.

i) Explain to the Board of Directors, methods that can be used to procure the necessary inputs for production. [6 Marks]

ii) Enumerate various transaction costs that they can face. [3 Marks]

b) The shareholders of Nyamakima holdings have delegated the running of the plant to a manager. The issue of concern is how to compensate the manager to improve their annual profits. Furthermore, the manager may decide to shirk or consume more leisure than working hence compromising the performance of the organization. As an expert, discuss with the special committee appointed by Annual General Meeting of the shareholders what methods they can use to discipline the managers and reduce the principal agent problem. [6 Marks]

c) Suppose Nyamakima Holdings would like to consider merging their new plant with Delmonte Juice Company. Explain to the Board of Directors what type of mergers they are likely to consider for better gains.

[6 Marks]

d) Differentiate between the Lerner Index and Herfindahl-Hirschman Index.

[4 Marks]

QUESTION 2

Government of Bulawayo has received worrying reports from the local businesses about market inefficiencies which they have been experiencing lately. A Task Force has been inaugurated to address these issues. As the lead advisor of the Task Force.

- a) Discuss with the Task Force panel various manifestations of market inefficiencies. [8 Marks]
- b) Suggest to the Panel with explanations the remedies that the Government of Bulawayo can use to mitigate against the market inefficiencies discussed in (a) above. [7 Marks]

QUESTION 3

Monopolies and Price Commission has commissioned a study to guide decisions on market structures and how they maximize the welfare of consumers. They are faced with an uphill task to determine the market structures suitable for promoting better competitiveness.

- a) Explain to the commissioners how perfect competitive markets operate, their assumptions and profit maximization arguments are embedded in their context. [6 Marks]
- b) Suppose now they are faced with strategic investor who owns key inputs, has large capital outlay and own several patents, discuss with the commissioner what type of structure is relevant in this case. [6 Marks]
- c) Explain to the commissioners why the market structure identified in (b) above might result in welfare loss. [3 Marks]

QUESTION 4

Every organization strive to minimize the costs of their operations and attain the maximum possible output. Junita Charities are funding a Save the Children Campaign in Manyatta. One of the initiatives is Food for Life Programme. As the Lead Expert in the implementation process,

- a) Discuss with the Head of Delegation the concept of cost minimization which prescribes that $MRTS=w/r$. [4 Marks]
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- b) Apart from the Food for Life Programme they also want to introduce a new initiative focusing on retaining Girl Child in School. Differentiate to the team the issues of economies of scope and cost complementarities pertaining to the two programmes. [6 Marks]
- c) The manager of the two programmes has no knowledge of economics of decision making. Explain why he needs the knowledge. [5 Marks]

QUESTION 5

Oligopoly is characterized by a few large firms. The behaviour of the firms in this market can be either through pricing or output strategies. Discuss at least two oligopolistic behavioural tendencies applying pricing or output strategies to outwit their competitors while maximizing their profits. [15 Marks]

QUESTION 6

Pricing decisions are very important for every leader in an organization. How they are made, their appropriateness and application is paramount to the profits gained by a firm. Provide valid arguments for or against the following pricing strategies for a profit maximization oriented firm.

- a) Price discrimination [3 Marks]
- b) Peak-load pricing [3 Marks]
- c) Transfer pricing [3 Marks]
- d) Price matching [3 Marks]
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- e) Inducing brand loyalty [3 Marks]