MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

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

CITY CAMPUS

ABA 306: MANAGERIAL ECONOMICS

Date: 19th January, 2018 Time: 5.30 - 7.30 pm

INSTRUCTIONS:

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

QUESTION ONE

(a) Explain the basic functions of managers. How is managerial economics useful to them? **(9marks)**

(b) What are the functions of demand forecasting to business managers? **(6marks)**

(c) A firm has the following demand and supply functions

Demand: $Q=25 - 0.5P$

Supply : $Q=10+1.0P$

(i) Find the equilibrium price and quantity of the firm **(3marks)**

(ii) Express the firm's supply curve if the government imposes a specific sales tax of Ksh.3 per unit **(3marks)**

(iii) Find the equilibrium price and quantity after the imposition of the tax by the government **(4marks)**

QUESTION TWO

(a) Explain cost-plus pricing strategy as used by firms and its limitations **(10marks)**

(b) Explain the main determinants of costs incurred by firms in the process of production **(5marks)**

QUESTION THREE

(a) Differentiate between a perfect and monopoly markets in terms of the demand curves facing them and their profit maximization conditions **(5marks)**

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

Demand function: $P=100-2Q$

Cost function: $C=50+40Q$

Calculate the profit of the firm and prove that it is a maximum **(10marks)**

QUESTION FOUR

(a) Explain the importance of production function to management of a firm. **(5marks)**

(b) Using a relevant diagram explain the law of variable proportion and its usefulness in management decision making **(10marks)**

QUESTION FIVE

In Nairobi City, the movie market is monopolistically competitive. In the long run, the demand for movies at the casino theatre is given as: $P=5.00-0.002q$ where "q" is the number of paid admissions in a month. The average cost function is given by

$$AC= 6.00-0.004q+0.000001q^2$$

(a)To maximize profit, what price should the manager of Casino theatre charge? **(5marks)**

(b)What would be the number of paid admissions per month? **(5marks)**

(c)How much profit will the firm earn? **(5marks)**