MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

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

CITY CAMPUS

ABA 306: MANAGERIAL ECONOMICS

Date: 5th May 2018   Time 5.30 – 7.30pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE questions.
- Question ONE carries 25 Marks and the rest 15 Marks each.

MASENO UNIVERSITY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

So students

UNIVERSITY EXAMINATION

CITY CAMPUS

Every / weeked

BACHELOR OF BUSINESS ADMINSTRATION with IT

ABA 306: MANAGERIAL ECONOMICS

INSTRUCTIONS:

ANSWER QUESTION ONE (1) AND ANY OTHER THREE QUESTIONS.

QUESTION ONE (1) CARRIES 25 MARKS AND THE REST 15 MARKS EACH.

Question One (Compulsory)

a) "Managerial Economics is that part of economic theory which, in general, is concerned with business activities and in particular, concerned with providing solutions to problems arising in decision-making of business organizations". Using an illustration discuss the above statement. (4 marks)

b) Distinguish between profit maximization and maximization of shareholders wealth as objectives of firms. (2 marks)

c) Given the demand function $Q = \dfrac{1000 - P}{2}$ and average cost function is

$AC = Q^2 - 59Q + 1315 - \dfrac{5000}{Q}$ for a firm.

   i) Determine the profit function for the firm. (3 marks)
   ii) Find at what level of output and price, profit is maximum (4 marks)
   iii) Calculate the maximum profit for the firm (3 marks)

d) Using an illustration and the concept of law of variable proportions, discuss the different stages of production in a firm. Which stage will you advise, explain. (9 marks)

Question Two

a) Discuss the importance of the concept of elasticity of demand to the firms and the government. (5 marks)

b) Sales of a 21 inch colour television sets and unemployment rates are shown in the following table.

eriod	1	2	3	4	5	6	7	8	9	10	11
uit sold [Y]	20	41	17	35	25	31	38	50	15	19	14
nemployment (%) [X]	7.2	4.0	7.3	5.5	6.8	6.0	5.4	3.6	8.4	7.0	9.0

   i) Calculate the correlation coefficient between X and Y
   ii) Using a predictive equation, determine if unemployment levels can be used to predict demand for 21 inch TV.
   iii) Compute the coefficient of determination and interpret the results
                                            (10 marks)

Question Three

"Kenya has been experiencing dismal growth and development of small business enterprises". In line with this statement.

    a) Discuss the contribution of small business enterprises to the Kenyan economy   (7 marks)

    b) Discuss the factors inhibiting the growth and development of small business enterprises.   (8 marks)

Question Four

    a) The director of finance has asked you, the managerial economist to analyze proposed projects. Each project has a cost of Ksh 10,000 and a cost of capital of 12%.The proposed projects expected net cash flows (in Ksh) are as follows:

Year	Expected Net cash flow	
	Project A	Project B
0	(10,000)	(10,000)
1	6,500	3,500
2	3,000	3,500
3	3,000	3,500
4	1,000	3,500

For each project, compute the measures below and advise the director:

      i) The payback period (PB)   (4 marks)

      ii) Net Present value (NPV)   (4 marks)

      iii) Internal Rate of Return (IRR)   (4 marks)

    b) Explain the weakness of using Internal Rate of Return(IRR) as a technique of making capital budgeting decisions   (3 marks)

Question Five

There has been a concern that oil companies do not readjust prices to benefit consumers when prices fall. The companies are nevertheless quick to adjust upwards when prices rise. This is said not to be in line with the spirit of trade liberalization.

    a) Discuss the behavior of oligopolies in setting market prices

    b) What benefits have accrued from liberalization of trade within your country?

    c) There has been a re-introduction of price controls in the oil industry in Kenya , what are the disadvantages of imposing price controls?   (15 marks)

Question Six

A Mobile Telephone company has isolated three distinct demands for its service;

Weekdays: $Q_1 = 90 - 0.5P_1$

Holidays: $Q_2 = 35 - 0.25P_2$

Nights: $Q_3 = 30 - 0.2P_3$

$TC = 25 + 20Q$ where $Q = Q_1 + Q_2 + Q_3$

Show that as a discriminating monopolist this company will maximize profits by charging the highest price in the market where the price elasticity $|\varepsilon|$ of demand is lowest, by finding;

a) The profit maximizing level of output
b) The profit maximizing level price
c) The price elasticity of demand in each market   (15 marks)