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**(KNOWLEDGE FOR DEVELOPMENT)**

**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2017/2018 ACADEMIC YEAR**

**SECOND YEAR FIRST SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION**

**COURSE CODE: MBA 810**

**COURSE TITLE: MANAGERIAL ECONOMICS**

**DATE: 01/08/ 2018**

**TIME: 2.00 – 4.00 P.M**

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**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE IN SECTION A AND ANY OTHER TWO (2)  
QUESTIONS IN SECTION B**

**TIME: 3 HOURS**

**KIBUCO observes ZERO tolerance to examination cheating**

**This Paper Consists of 3 Printed Pages. Please Turn Over.**

### 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. (4 Marks)
- c) Given the demand function  $Q = \frac{1000 - P}{2}$  and average cost function is  $AC = Q^2 - 59Q + 1315 - \frac{5000}{Q}$  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 (3 Marks)
  - iii) Calculate the maximum profit for the firm (2 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. (8 Marks)

### SECTION B (CHOOSE ANY THREE QUESTIONS)

#### QUESTION TWO

There has been concern that oil companies do not readjust prices to benefit consumers when production prices fall. The companies are nevertheless quick to adjust prices upwards when production 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 call to re-introduce price controls in the oil industry. What are the disadvantages of imposing price controls? (12 Marks)

#### QUESTION THREE

Assume the following information represents the national income model of an utopia economy:

$$Y = C + I + G, C = a + b(Y - T), T = d + tY, I = I_o \text{ and } G = G_o$$

Where;  $a > 0, 0 < b < 1, d > 0, 0 < t < 1$ ; T= Taxes, I = Investment and G= Government

Expenditures.

- i). Explain Economic interpretations of the parameters  $a, b, d$  and  $t$
- ii). Find the equilibrium values of Income, Consumption and taxes.

- iii). Explain the three alternative approach used in estimating the National Income of a country and give a brief explanation for the three methods, giving the same estimate. (12 Marks)

#### QUESTION FOUR

“Kenya has been experiencing dismal growth and development of business enterprises”. In line with these statement.

- i). Discuss the contribution of business enterprises to the Kenyan economy (6 Marks)
- ii). Discuss the factors inhibiting the growth and development of the business enterprises. (6 Marks)

#### QUESTION FIVE

Sales of 21-Inch Color Plasma Television sets and three-Month lagged unemployment are shown in the following table.

Period	1	2	3	4	5	6	7	8	9	10	11
Units Sold (y)	20	41	17	35	25	31	38	50	15	19	14
Unemployment % (3 month lag) (x)	7.2	4.0	7.3	5.5	6.8	6.0	5.4	3.6	8.4	7.0	9.0

- a) Calculate the correlation between the unemployment levels and the demand for the 21-inch TVs (2 Marks)
- b) Derive a predictive equation for the units of TV sets sold and the unemployment level (7 Marks)
- c) What percentage of the variations in the units sold is explained by the unemployment levels in the equation formulated in (b) above. (3 Marks)