(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER

SPECIAL/SUPPLIMENTARY EXAMINATION

FOR THE DEGREE OFMASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 810

COURSE TITLE: MANAGERIAL ECONOMICS

DATE: 19/10/2018 **TIME:** 3:00 PM

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 4 Printed Pages. Please Turn Over.

SECTION A (COMPULSORY)

QUESTION ONE

a) "Economic Analysis 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 organizations". Using an illustration discuss the above statement. (4 marks)

b) 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. (2 marks)

ii) Find at what level of output and price, profit is maximum (4 marks)

iii) Calculate the maximum profit for the firm (2 marks)

c) Suppose you have been given the following two functions $\frac{P}{3} + Q = 40$ And $Q = \frac{P}{5}$ where P is price and Q is Quantity.

i). Show which function illustrates the supply and Demand. Explain

ii). What is the equilibrium price and quantity? (3marks)

SECTION B (CHOOSE ANY THREE QUESTIONS)

QUESTION TWO

a) 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. (10marks)

b) "Welfare economics is concerned with evaluation of alternative economic situations (states, configurations) from the point of view of the society's wellbeing" In line with this statement, explain the Pareto - optimality criterion. (5 marks)

QUESTION THREE

a) Using an illustration explain the price-output determination under Perfect Competition in the short run period. (11 marks)

b) Explain the difference between Monopolistic and oligopolistic markets (4 marks)

QUESTION FOUR

A director of an organization has asked you to analyze two 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 using the techniques below and advise the director;

i) Payback Period

ii) The Net Present Value (NPV)

iii) The Internal Rate of Return(IRR) (15 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 (5 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)

QUESTION SIX

a) Discuss the four major macroeconomic policy objectives outlining how conflicts may arise when the government simultaneously seeks to attain all the policy objectives. (4 marks)

b) Assume the following information represents the National Income Model of an 'Utopian' economy.

$Y = C + I + G$

$C = a + b(Y - T)$

$T = d + tY$

$I = I_0$

$G = G_0$

where $a > 0, 0 < b < 1, d > 0,\ 0 < t < 1$,

T = Taxes, I = Investment, G = Government Expenditure

i. Explain the economic interpretation of the parameters a, b, d and t (2 mark)

ii. Find the equilibrium values of Income, consumption and taxes (7 marks)

iii. Calculate the Government expenditure multiplier and Investment multiplier (2marks)