(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER

MAIN EXAMS

FOR THE DEGREEOF MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 810

COURSE TITLE: MANAGERIAL ECONOMICS

DATE: 9TH JUNE,2022   **TIME:**2.00PM – 5.00PM

INSTRUCTIONS TO CANDIDATES

1.Answer Question One in Section A and Any other THREE (3) Questions in Section B

2.Question **one** carries **40**marks and each of the other THREE questions carry **20** marks each.

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

QUESTION ONE

a) Suppose that macroeconomic forecasters predict that the economy will be expanding in the near future. How might managers use this information?What will be an ideal response for a production manager?(4 marks)

b) Differentiate the following concepts as used in managerial economics:
    i.   Consumer-producer rivalry and Consumer-consumer (2marks)
    ii.   Price ceiling and price floor   (2marks)
    iii.   Producer surplus and consumer surplus   (2marks)

c) Explain any five common barriers to entry into the market.   (10marks)

d) Given $Q = AK^{\alpha}L^{\beta}$;

i. Calculate the marginal product for labor, average product for capital and Marginal rate of technical substitution   (7marks)

ii. If $\alpha=\beta=0.5$, explain the type of returns to scale represented by the production function.   (3marks)

e). As a manager in an agro-processing comprehensively the concept of demand forecasting outline the common challenges facing this industry during an electioneering period. Suggest possible solutions to each problem (10 Marks)

(Total 40MARKS)

QUESTION TWO

a) The firm's current profits are $100 million. Suppose the firm profits are expected to grow at a rate of 5 percent for the foreseeable future and the market interest rate is 10 percent.
    i. Calculate the value of the firm.   (4marks)
    ii).Explain any three properties of consumer preferences.   (6marks)

b) Describe five functions performed by a managerial economist in a firm. (10marks)

(Total 20MARKS)

QUESTION THREE

a). Managerial economics involves directing scarce resources in the way that most efficiently achieves the managerial goal. In line with this statement,

i). discuss five basic principles that a manager should uphold for effective management. (10marks)

ii)Explain seven (10) main factors that influence investment. [10 marks]

(Total 20MARKS)

QUESTION FOUR

a. Using a well labeled diagram explain the short run profit maximizing level of input and output combination for a firm (8marks)

b. A perfectly competitive firm face the following demand function Q=50-0.5P. The cost facing the firm is given by C=50+40Q. Required:

i) Calculate equilibrium Price and equilibrium quantity that will maximize the profits. (9marks)

ii) Calculate the maximum profits/loss attainable (3marks)

(Total 20MARKS)

QUESTION FIVE

a. Explain the principle agent problem and suggest three measures that the firm owner can employ to mitigate the problem in the management of the firm. (8marks)

b. Suppose the inverse demand for a multi-plant monopolist is given by P=70-0.5Q. The marginal cost of producing in plant 1 is $MC_1 = 3Q_1$ and the marginal cost of producing in plant 2 is $MC_2 = Q_2$. Required;

i) Calculate the profit maximizing level of output produced in each plant (6marks)

ii) The profit maximizing price (3marks)

iii) Maximum profit/loss for the monopolist if the total cost facing the monopolist is 750 (3marks)

QUESTION SIX

a). With the help of Q diagram distinguish the 3 stagesofproduction.[10marks]

b).Given the following information on sales for a givenfirm.

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sales	22734	24731	31489	44685	55319	91021	146234	107883	127483	97275

Estimate the sales for 2012,2015 and fit a linearregressionequation. [10marks]