(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

THIRD YEARS FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: ECO311

COURSE TITLE:MANAGERIAL ECONOMICS

DATE: 16TH MAY,2022 **TIME: 9.00AM – 11.00AM**

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B

2.Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

SECTION A

QUESTION ONE.

a. Define managerial economics and explain Three its importance to the manager (8 marks)

b. Highlight and explain three reasons why demand curve slopes downwards? (6 marks)

c. Using a well labeled diagram explain the Marginal Conditions of Profit Maximization for a firm (10 marks)

d. Explain three factors that cause swings in Business activity (6 marks)

(Total 30 marks)

SECTION B.

QUESTION TWO

a) According to Baumol the most plausible factor in managers' utility functions is the maximization of sales revenue. Explain Five factors that explain the managers' pursuance of this goal (10 marks)

b) Differentiate the following cost concepts as used in accounting giving appropriate examples in each case

   i. Opportunity Costs and Explicit Cost (2 marks)

   ii. Fixed and Variable Costs (2 marks)

   iii. Short-Run and Long-Run Costs. (2 marks)

   iv. Incremental Costs and Sunk Costs. (2 marks)

   v. Private And Social Costs (2 marks)

(Total 20 marks)

QUESTION THREE

a) A monopoly firm wishes to supply two different markets, 1 and 2, with the corresponding demand functions given as: $P_1 = 500 - Q_1$ (Market 1) $P_2 = 300 - Q^2$ (Market 2) where P_1 and P_2 represent the prices charged in markets 1 and 2 respectively, and Q_1 and Q_2 are quantities sold in markets 1 and 2, respectively. If the cost function is given by:

$C = 50{,}000 - 100Q$.

Find:

i. The profit maximizing output for the monopolist (3 marks)

ii. Allocation of output between the two markets (2 marks)

iii. The price charged in each of the two markets (3 marks)

iv. The total maximum profit (2 marks)

b) Schumpeter's Innovation Theory of Profit puts emphasis on innovation for a firm to earn any profits. Explain the sources of innovations that a firms' management may introduce in its manufacturing and distribution techniques of its goods so as to earn profits (10 marks)

(Total 20 marks)

QUESTION FOUR

a) With the appropriate diagram, discuss the effect of a increase in the price of labour input on the optimal input combination, assuming a production function involving capital (K) and labour (L). (10 marks)

b) There are several sources of economies of scale that cause a downward movement along the long-run average cost curve. Discuss any five Internal Economies of Scale that may accrue to firm. (10 marks)

(Total 20 marks)

QUESTION FIVE

a) The sales manager of company K was tasked to explain the variations in the sales of the product produced. Discuss the factors that may cause variations in the demand for the product for this company. (10 marks)

b) Using appropriate examples explain the Nash equilibrium and its applicability in decision making for businesses (10 marks)

(Total 20 marks)