



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**  
**FIRST YEAR FIRST SEMESTER**  
**MAIN EXAMS**

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

**COURSE CODE: MBA 810**

**COURSE TITLE: MANAGERIAL ECONOMICS**

**DATE: 1<sup>ST</sup> DECEMBER, 2021**

**TIME: 9.00AM - 12NOON**

---

**INSTRUCTIONS TO CANDIDATES**

Answer Question One and any other THREE (3) Questions

TIME: 3 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of Printed Pages. Please Turn Over.

### QUESTION ONE ( 40 MARKS )

- a). How does managerial economics relate with other disciplines of economics? [10marks]
- b). What is break-even point? Explain the important managerial uses of break-even analysis. [10 marks]
- c). Distinguish between economies of scale and diseconomies of scale. Explain the factors that cause economies of scale [10marks]
- d).  $P=20-4Q$ ,  $TC =5Q$  where P is the demand function, TC is the total cost and Q is the quantity produced and sold. Calculate;
- (i) Total revenue function [2marks]
  - (ii) The output maximizing revenue [4marks]
  - (iii) The output maximizing the profit and hence the maximum profit. [4marks]

### QUESTION TWO ( 20 MARKS)

- (a) Explain six (5) determinants of price elasticity of demand. [10marks]
- (b) Differentiate the following concepts as used in managerial economics:
- i. Consumer-producer rivalry and Consumer-consumer rivalry (2marks)
  - ii. Price ceiling and price floor (4marks)
  - iii. Producer surplus and consumer surplus (4marks)

### QUESTION THREE ( 20 MARKS)

- (a) With the help of Q diagram distinguish the 3 stages of production. [10marks]
- (b) Given the following information on sales for a given firm.

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sales	2273	2473	3148	4468	5531	9102	14623	10788	12748	9727
	4	1	9	5	9	1	4	3	3	5

Estimate the sales for 2012, 2015 and fit a linear regression equation. [10marks]

### QUESTION FOUR ( 20 MARKS)

- a). Explain seven (7) main factors that influence investment. [7marks]
- b). A company is considering two mutually exclusive projects requiring an



initial cash outlay of ksh 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight-line basis. The before depreciation and taxes cash flows expected to be generated by the projects are as follows.

Year	1	2	3	4	5
Project A	Ksh 4,000	Ksh 4,000	Ksh 4,000	Ksh 4,000	Ksh 4,000
Project B	Ksh 6,000	Ksh 3,000	Ksh 2,000	Ksh 5,000	Ksh 5,000

**Required :** calculate for each project

- (i) The payback period [8marks]
- (ii) The net present value [5marks]

Which project should be accepted under each method? Why?

#### QUESTION FIVE

Strategic and Risk Managers in firms operating under different market structures are faced with responsibilities of managing and ameliorating risk associated with various projects under their control; and determining a pricing scheme that the firms should adopt.

- a) State and explain five long-run determinants of market structures (5 Marks)
- b) State and explain five strategies that a Strategic and Risk Manager in a firm under telecommunications industry can use to prevent entry and reduce the risk associated with entry of other firms in that industry (5 Marks)
- c) Briefly discuss four main pricing decisions that a Strategic Manager of a firm can use in order to maximize the profits of the firm and increase the value of a firm (5 Marks)
- d) From the four pricing decisions discussed under (c), what pricing scheme will you recommend for a firm in an oligopolistic telecommunications industry in Kenya to use when pricing its products or services? Explain and give reasons (5 Marks)