JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

3RD YEAR 1ST SEMESTER 2022/2023 ACADEMIC YEAR

MAIN CAMPUS/SIAYA CAMPUSES

COURSE CODE: BEB 9301

COURSE TITLE: Managerial Economics

DATE: 13/12/2022 **SESSION: 15.00-17.00PM**

TIME: 2 HOURS

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<u>Instructions:</u>

1. **Answer Question One (COMPULSORY) and any other TWO questions**
2. **Do not write on the question paper.**

QUESTION ONE

a) Explain the role of a managerial economist in industrial enterprises. **(5 Marks)**

b) Examine the short term objectives of demand forecasting. **(5 Marks)**

c) Why is the method of break-even analysis widely used in profit planning and analysis? **(4 Marks)**

d) Outline ways of settling antitrust actions in Kenya. **(3 Marks)**

e) In relation to the law of variable proportions, explain the causes of :

i. Initial Increasing returns **(2 Marks)**

ii. Diminishing returns **(2 Marks)**

f) Differentiate between price skimming and price lining. **(4 Marks)**

g) Highlight the merits of Net Present Value (NPV) criteria approach in analyzing capital investments. **(2 Marks)**

h) Explain the rationale for government involvement in a market economy.

(3 Marks)

QUESTION TWO

a) A monopolistic firm is one which fixes its prices without necessarily using demand and supply. Using relevant examples in Kenya, explain the causes of monopoly power.

(5 Marks)

b) Using demand-supply analysis, explain the effects of each of the following on the value of

the firm:

(i) A new advertising campaign increases the sales of the firm substantially.

(2 Marks)

(ii) A new competitor enters the market. **(3 Marks)**

c) A firms total cost function is $TC = 12 + 60Q - 15Q2 + Q3$. Suppose the firm produces 10 units of output.

Determine:

(i) Total Fixed Cost (TFC) **(2 Marks)**

(ii) Total Variable Cost (TVC) **(2 Marks)**

(iii) Average Total Cost (ATC) **(2 Marks)**

(iv) Average Variable Cost (AVC) **(2 Marks)**

(v) Marginal Cost (MC) **(2 Marks)**

QUESTION THREE

a) Examine the applications of the Law of Variable Proportions in modern businesses. **(4 Marks)**

b) Explain the importance of the knowledge of elasticity to a business manager. **(4 Marks)**

c) The annual sales of a company are as follows:

Year	2014	2015	2016	2017	2018
Sales('000)	45000	56000	58000	46000	75000

Using the method of least squares, fit the trend line and estimate the annual sales of 2025.

(8 Marks)

d) Distinguish between Equi-Marginal principle and incremental cost principle in managerial decision making. **(4 Marks)**

QUESTION FOUR

a) Explain the reasons for capital budgeting. **(4 Marks)**

b) Senior management of an electronics company is considering two mutually exclusive investment projects. The projected net cash flows for projects *A* and *B* are summarized in the table below. If the discount rate (cost of capital) is expected to be 12%, which project should be undertaken? **(8 Marks)**

Net Cash Flows For Project A and B

Year, t	**Project A(Ksh. Millions)**	**Project B(Ksh. Millions)**
0	-25	-19
1	7	6
2	8	6
3	9	6
4	9	6
5	5	6

c) In order to encourage good practices and protect her citizens, the government is sometimes forced to impose regulations which are seen as interfering with free market forces. Using relevant examples, explain four ways in which government interferes with free market mechanisms. **(8 Marks)**

QUESTION FIVE

a) Examine the factors to consider when making pricing decisions. **(10 Marks)**

b) The demand function for books published by a company is estimated as**:**

$Q_a = 40,000 - 50P_a + 60P_b + 0.5PCI$

Where, P_a = the average price charged for the books by the publisher,

P_b = the average price charged by the competitor,

PCI = per capita income of the buyers.

As a manager, determine :

i. The effect of price increase on the total revenue. **(4 Marks)**

ii. The probable effect of lowering prices by the competitor. **(3 Marks**

iii. The effect of rising per capita income on the sales volume. **(3 Marks)**