

QUESTION 1

1. a) What do you understand by the term Managerial Economics? Explain Any five Benefits of studying this branch of Economics. (10 marks)

b) Company x operates on an own building which could otherwise be leased at ksh. 5000 /= per month. The final statement of thee company appears as below.

Salary and wages	kshs120, 000
Equipment purchased	kshs 80,000
Inventory	kshs 20,000

Based on the above information define and calculate the following costs (per year) for company x.

- I. Opportunity cost. (3 marks)
- II. Economic cost (3 marks)
- III. Accounting cost. (3 marks)

c) State **TWO** major functions of a managerial economist. (2marks)

d) You have the following information about company Y.

Proposed investment = kshs. 2 million.

Repayment to be done in the following three installments.

1 st year	100,000
2 nd year	100,000
3 rd years	2,600,000

Using a 10 % interest rate.

Calculate .

- i. The present value for each year. (3 marks)
- ii. **N.P.V** (Net Present Value) of the project. (3marks)
- iii. As a manager will you advise the company to invest on the project or not. Support your answer. (3marks)

2. (a) Define investment. Explain any four reasons which influence managers to invest
(10 marks)
- (b) "Economic theory is important in management" elucidate. (10 marks)
3. a) Explain any Five reasons why governments regulate business/firms. (10marks)
- b) "Modern managers aim at "**Sales maximization**" and not the traditional objectives of "**Profit maximization**". Give five reasons in support of the statement. (10 marks)
4. a) Define cost estimation. Discuss the importance of cost estimation in modern business.
- b) Define capital budgeting. Briefly explain the steps involved in the process of capital budgeting. (10 marks)
5. a) Define pricing. Explain **ANY** four objectives of pricing. (10 marks)
- b) What is price. Discrimination. Explain the factors influencing rational manager to adopt this pricing strategy. (10 marks)