JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATIONS 2016
(SEPTEMBER-DECEMBER 2016)
YEAR THREE FIRST SEMESTER EXAMINATIONS FOR BACHELOR OF BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY

(MAIN CAMPUS)

ABA 306: MANAGERIAL ECONOMICS

Date: **Time: 2Hours**

INSTRUCTIONS
1. Answer Question **ONE** and any other **TWO** Questions
2. Question **ONE** carries **30** marks, the rest **20** marks each

QUESTION ONE

(a) Explain how managerial economics is useful to managers. (8marks)

(b) What is cost-plus pricing ?Explain its limitations (6marks)

(c) What is demand forecasting? How is it important to firm managers? (8marks)

(c) Explain the determinants of costs of production incurred by firms (8marks)

QUESTION TWO

(a) Given a demand function of the linear form:
Q=1000-20p. Calculate and interpret the point elasticity of demand when p=100 and Q=800 (5marks)

(b) Discuss the importance of the concept of elasticity of demand to managers and government (10marks)

(c) Explain the concept the law of variable proportions and its reliance in management of a firm (5marks)

QUESTION THREE

(a) Suppose you are a manager of a firm earning Ksh. 250, 000 per month and you decide to open your business. Your revenue during the first year of operations is 120,000 and expenses are as follows:

Salaries	45,000
Supplies	15,000
Rent	10,000
Utilities	1000
Interest on loan	10,000

Calculate

(i) Explicit and implicit costs (4marks)

(ii) Business and Economic profit (4marks)

(iii) Would you advice the manager to run his business or employ someone to help him? (2marks)

(b) Explain determinants of demand for a good or service (10marks)

QUESTION FOUR

(a) A monopolistic firm has the following demand and cost functions
Demand function: P=100-2Q
Cost function: C=50+40Q
Calculate the profit of the firm and prove that it is a maximum
(10marks)

(b) Explain the importance of demand analysis to management
(10marks)

QUESTION FIVE

The Redwood Furniture Company manufactures tables and chairs as part of its line of furniture production. The table below show the data obtained from the Redwood Furniture problem.

Resources	Unit Requirement		Amount
	Table	Chair	
Wood (board sheet)	30	20	300
Labour	5	10	110

The owner wishes to determine the number of tables and chairs to be made to maximize the total profits.

Required:

Given the objective function of the firm to be $6X_T+8X_C$, where X_T=number of tables and X_C = number of chairs. Use linear programming technique to determine the optimal number of tables and chairs that will maximize the firm's profit and sketch a graphical solution for your answer. (20marks)