



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
3rdYEAR 1st SEMESTER 2023/2024 ACADEMIC YEAR
MAIN / KISUMU CAMPUS

COURSE CODE: BAB 9301

COURSE TITLE: MANAGERIAL ECONOMICS

EXAM VENUE:

DATE:

DURATION: 2 HOURS.

INSTRUCTIONS

- 1. Answer QUESTION ONE and any other TWO questions.**
- 2. Show ALL your workings and be as NEAT as possible.**
- 3. Candidates are advised not to write on the question paper.**
- 4. Marks allocated to each question are shown at the end of the question.**

QUESTION ONE

- a) Explain the differences between managerial economics and traditional economics. **(5 Marks)**
- b) Explain how patents and copy rights are used to settle anti-trust actions in Kenya. **(4 Marks)**
- c) Highlight the reasons for existence of firms. **(3 Marks)**
- d) Explain the determinants of pricing policies **(5 Marks)**

- e) Explain the importance of the knowledge of elasticity to business managers. **(4 Marks)**
- f) Explain why discounting techniques are preferred to non-discounting techniques in evaluation capital investments. **(4 Marks)**
- g) Examine the features of perfect competition markets **(5 Marks)**

QUESTION TWO

- a) Explain the following concepts as used in managerial economics:
 - i. Opportunity cost. **(2 Marks)**
 - ii. Equi-Marginal Principle. **(2 Marks)**
 - iii. Incremental cost principle. **(2 Marks)**
- b) Discuss types of government regulations designed to encourage competition and discourage monopoly? **(6 Marks)**
- c) Managers price products on the basis of either the cost or the market conditions. Discuss various methods of price determination based on market conditions. **(8 Marks)**

QUESTION THREE

- a) Explain the significance of marginal analysis in managerial decision making. **(4 Marks)**
- b) A-Z footwear Ltd, a seller of second hand shoes has estimated the demand function for shoes as

$$Q_x = 250.68 - 410.31P_a + 1.24Y + 240.23P_b$$

(150.11)
(0.47)
(65.58)

Where: Q_x = Quantity demanded per month.

P_a = the price of shoes

P_b = the price of competitor's shoes

Y = per capita income

$R^2 = 0.9333$

Figures in parenthesis are standard errors of the coefficients.

The current values (for 2022) of the determinants are:

$P_a = 279.99$, $P_b = 274.99$ and $Y = \text{Ksh. } 15000$

- i. Estimate the current demand for shoes. **(5 Marks)**
- ii. Determine the price elasticity of demand for shoes. **(3 Marks)**
- iii. If the per capita income increases to Ksh. 20,000, predict the total sales of shoes. **(3Marks)**
- c) Explain why break-even analysis is popular in cost profit-volume decisions. **(5 Marks)**

QUESTION FOUR

- a) Explain the concept of capital budgeting. **(2 Marks)**
- b) Explain the considerations in choosing an investment appraisal technique. **(7 Marks)**

- c) The managerial economist of a processing firm has been asked to analyze two proposed capital investment projects A and B. Each project has an initial cost of ksh. 1000,000. The project cash flows which have been adjusted to reflect taxes, inflation, depreciation and salvage values are as shown in the table below.

Table 3.1 Net Cash Flows for Projects A and B

Year	Project A(in ksh.'00)	Project B (ksh.'00)
0	-10,000	- 10,000
1	7,500	4,000
2	2,000	4,000
3	1,500	4,000
4	1,000	4,000

- i. Using the payback period method, which project should be selected? **(3 Marks)**
 ii. Does the use of net present value method affect this decision? **(3 Marks)**
- d) 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)**

QUESTION FIVE

- a) Explain the law of diminishing marginal returns. **(2Marks)**
- b) A trendy Chinese restaurant is one of the first businesses to open in a new commercial building still under construction. The restaurant has received good reviews and has lines of diners waiting for tables most nights. Explain the measures the restaurant should take in the short-run in order to maximize its profit. **(4 Marks)**
- c) On the basis of the cost function $TC= 100+ 60Q+ 3Q^2$, compute the average and marginal costs and determine the point at which diminishing returns begin to occur? **(6 Marks)**
- d) The annual sales of a company are as follows:

Year	2011	2012	2013	2014	2015
Sales	40000	51000	53000	43000	65000

Using the method of least squares with 2011 as the base year, fit the trend line and estimate the annual sales of 2024. **(8 Marks)**