

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**SCHOOL OF BUSINESS AND ECONOMICS**

**UNIVERSITY EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION.**

**SEMESTER 2024/2025 ACADEMIC YEAR**

**COURSE CODE: MBA 802.**

**COURSE TITLE: Managerial Economics**

**EXAM VENUE:**

**STREAM: MBA**

**DATE:**

**EXAM SESSION:**

**TIME:**

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**Instructions**

- 1. Attempt ANY four questions.**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

**QUESTION ONE (15 MARKS)**

- a) Discuss the scope of managerial economics with regard to managerial decision making? **(5 Marks).**
- b) Discuss the problems of profit measurements as an indicator of business success? **(5 Marks).**
- c) Examine the differences between historical and current costs in management decisions? **(5 Marks).**

**QUESTION TWO (15 MARKS).**

- a) Examine the differences between constrained maximization and constrained optimization with reference to their applicability to managerial decisions? **(6 Marks).**
- b) A tour firm plans to ferry tourists between Nairobi and Maasai Mara Game reserve. The firm's cost function is estimated as:  $TC=100+5N-4N^2$ , where N=the number of passengers ferried per day. You are required to find;
- i) The average cost function, **(3 Marks).**
- ii) The number of passengers per day that minimizes the average cost, **(3 Marks).**
- iii) The marginal cost function? **(3 Marks).**

**QUESTION THREE (15 MARKS)**

- a) Discuss the properties of the Cobb-Douglas production function? **(5 MARKS).**
- b) Lake producer incorporated is a small scale fish processor, its production function is estimated as;  $Q=50K^{0.5}L^{0.5}$ , where K=capital, L=Labor. The management is interested in knowing the;
- i) The degree of production 'function' **(2 Marks).**
- ii) Marginal product of capital **(4 Marks).**
- iii) the marginal product of labor, **(4 Marks)**

When  $K=25$  and  $L=50$ .

**QUESTION FOUR (15 MARKS)**

- a) How are prices and output decisions determined under a monopolistic competition? **(6 Marks)**
- b) Nera resort has approached you with the following estimated cost and demand function,  $P=405-4Q$ , and  $TC=40-5Q+Q^2$ . They seek your advice on the following;
- i) Total profit function, **(3 Marks).**
  - ii) Marginal revenue function, **(3 Marks).**
  - iii) Profit maximizing quantity levels. **(3 Marks).**

**QUESTION FIVE (15 MARKS)**

- a) How would a decision tree analysis be used in investment decisions? **(3 marks).**
- b) A housing development company is considering the prospect of investing in a piece of land around the Kisumu Airport going for of Kes.5 000 0000. The expected return on this property after 20 years is Kes. 45 000 000.
- i) Will the investment be profitable if the investor has to borrow the initial capital at an interest rate of 12% per annum? **(4 Marks).**
  - ii) Will the investment be profitable if the investor negotiated an interest rate of 10.5% per annum? **(4 Marks).**
  - iii) At what interest rate would the investor be indifferent? **(4 Marks).**

**QUESTION SIX. (15 MARKS).**

- a) Discuss the differences between decision under risk and decision under uncertainty? **(5 Marks).**
- b) Discuss the concept of the prisoner's dilemma in game theory? **(5 MARKS).**
- c) Distinguish between a dominant strategy and a strictly dominated strategy. Use a table example to illustrate. **(5 MARKS).**

