



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

**UNIVERSITY EXAMINATION FOR BACHELOR OF BUSINESS
ADMINISTRATION (BBA-With IT)**

YEAR THREE SEMESTER ONE ACADEMIC YEAR 2017/18

MANAGERIAL ECONOMICS (ABA 306)

MAIN CAMPUS-FULL TIME

UNIT CODE : ABA 306/AEC 306

UNIT NAME : MANAGERIAL ECONOMICS

DATE :

DURATION : 2HRS

Instructions

1. Answer question One and any other two in this paper
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

In the recent past, Kenyans have been grappling with unwarranted importation of food stuff and electronic goods in the Kenyan market which have had ramification on health and quality of products.

- (a) Differentiate between dumping and contraband goods in an economy **(2 Marks)**
- (b) Enumerate causes and consequences of dumping of goods in Kenya **(8 Marks)**
- (a) Why is the understanding of the principles of Managerial Economics necessary for a business manager? **(6 Marks)**
- (b) Assuming the unit price of a commodity is defined by: $P = 90 - 2q$, and the cost function is given as: $C = 10 + 0.5q^2$,
 - (i) Determine the profit-maximising level of output and the unit price. **(5 Marks)**
 - (ii) Determine the cost-minimising level of output **(5 Marks)**
- (c) Comment on the relationship between inflation and unemployment **(4 Marks)**

QUESTION TWO

- (a) In making cheese, the farm manager has discovered the demand function of the product to be represented by $P = 50/\sqrt{X}$ and the cost function of producing X items is also estimated by an economist as $C = 0.5X + 500$

Where p = price, x = qty of items demanded; C = cost of the items

- i. Find the price per unit which will yield a maximum profit **(2 Marks)**
 - ii. Find the output level the project will produce to maximize the profit **(2 Marks)**
 - iii. Find the project's maximum profit **(2 Marks)**
 - iv. Show that the Second Order Condition (SOC) has been fulfilled **(2 Marks)**
- (b) As a strategy to promote economic growth and promote development in the year 2018 and beyond, Kenyan government has identified key economic growth areas dubbed 'The Big Four Agenda'. You have been appointed as the farm manager of Panda Irrigation scheme and realised that the project is exposed to several risks. Advise the firm on the strategies they should adopt to mitigate such risk exposure **(10 Marks)**
 - (c) Briefly explain two instances where the economic Law of Demand has been disregarded **(2 Marks)**

QUESTION THREE

(a) Explain the following economic concepts:

- i. Returns to Scale (3 Marks)
- ii. Increasing Returns to Scale (3 Marks)
- iii. Diminishing Returns to Scale (3 Marks)
- iv. Opportunity Cost (3 Marks)
- v. Diseconomies of Scale factors (3 Marks)

(a) XYZ Plc has a total product function given by the following equation. Where y = total output yield and x = amount of nitrogen added per acre to the farm

$$y = 0.75x + 0.0042x^2 - 0.000023x^3$$

Required:

Calculate the marginal product (MP) of the firm (5Marks)

QUESTION FOUR

(a) Agency Theory places managers as agents of companies who act on their behalf for the benefit their principles. Their decisions include appraising and committing huge sums of money long term projects that are expected to yield positive returns.

Required:

- (i) What do you understand by the term 'Capital Budgeting'? (2 Marks)
- (ii) What are the features of a good appraisal technique (4 Marks)
- (iii) Differentiate between mutually exclusive and independent projects (2 Marks)

(b) Management of Capital X Plc has two projects A and B with the expected cashflows as indicated below:

Project	Initial Cost	Year	
	Kshs'm'	1	2
A	100.00	Nil	140.00
B	100.00	130.00	Nil

The cost of capital is 10%.

Required:

- (i) The NPVs of both Projects (2 Marks)
- (ii) The IRR for both Projects (4 Marks)

- (iii) Which Projects would you advice the management to finance and why (2 Marks)
 (iv) Sketch a graph NPVs and comment on your result (4 Marks)

Discount Table

Yr	Discount Rate (r %)		
	10%	20%	35%
1	0.9091	0.8333	0.7407
2	0.8264	0.6944	0.5487

QUESTION FIVE

- (a) A firm is an entity that transforms inputs into product. The Theory of the firm was developed on fundamental assumptions of profit maximization, rationality and single ownership. State your position on these assumptions (**8 Marks**)
- (b) Z Plc production cost functions of two goods X and Y is estimated by its cost accountant as:-

$TC = 2x^2 - xy - 3y^2$ where TC= Total cost, X and Y are units of goods to be produced. If the company is to meet a combined order of 36 units.

Required:

- (i) The optimum combination (units) of X and Y that would minimize its cost (**8 Marks**)
 (ii) The company's minimum cost (**2 Marks**)
 (c) Distinguish between substitution and income effect in consumer demand (**2 marks**)

END



Jaramogi Oginga Odinga University of Science and Technology

School of Business & Economics

Course: ABA 306 -Managerial Economics (Y3S1)

Instructor: CPA Aggrey Ochieng O, BBA (Accounting), MBA (Finance), UoN, CPA(K), ACP(UK)

Objectives

At the end of the course the students should be able to:

- 1) Apply Economic Theories and principles for managerial decision-making
- 2) Acquire skills and tools for economic analysis for managerial decision –making in a dynamic economic environment

Course Outline

1. Nature and Scope of Managerial Economics

- Scope ,nature and importance of managerial economics

2. Role of Economic Theory in Management

- Managerial economics & decision-making process
- Basic Principles of Managerial economics

3. Theories of the Firm

- Meaning and Theories of Profit
- Profit maximization as a Business Objective
- Sales, Growth Rate, and Maximisation of Utility function as business objectives
- Long-Run Survival, Market Shares, and Entry Prevention

4. The Theory Production

- The Production Function
- Optimal Input Combinations
- Input Price Changes and the Optimal Combinations

5. Cost and Estimation Theories

- Cost concepts

- Theory of costs and cost curves
- Economies & diseconomies of scale

6. Pricing- Practises , Government Regulations, Anti-trust-389

- Pricing theories & Practises
- Price regulations
- Anti-trust laws
- Shortcomings of the Market mechanism
- Government's Role in Different Economic Systems
- Role of Government in Private Business
 - Regulations & Promotion Roles

7. Long-run investment decisions

Application of Capital Budgeting and Forecasting models in management

- What is capital Budgeting?
- Capital Budgeting Process
- Applications of Capital Budgeting
 - Pay Back Period, ARR,IRR,NPV

Examined as

MARKS

Examination	70%
CAT	20%
Assignment(s)	<u>10%</u>
Total	<u>100%</u>

References

- 1) Dwivedi, D. N. (2002) Managerial Economics, sixth edition (New Delhi: Vikas Publishing House Ltd).
 - 2) Mithani D.M. : Managerial Economics, Himalaya Publishing House, Mumbai
 - 3) Misra & Puri : Economics for Managers, Himalaya Publishing House, Mumbai
 - 4) Adhikary M. : Managerial Economics, Khosla Educational Publishers, Delhi
- Mathur N.D., : Managerial Economics, Shivam Book House Private Limited, Jaipur