



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

**UNIVERSITY EXAMINATION FOR THE BSC. AGRIBUSINESS MANAGEMENT
AND BACHELOR OF BUSINESS ADMINISTRATION WITH IT (ACCOUNTING &
FINANCE OPTIONS)**

**3rd YEAR 1st SEMESTER 2024/2025 ACADEMIC YEAR
MAIN AND SIAYA CAMPUSES**

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(COMPULSORY)-30 MARKS

- a) Discuss the application of economics in business decision making. **(6 Marks)**
- b) The equation of the demand for shoes in a given week is given as:

$$Q_t = a + bX_t - cP_t .$$

Where, Q_t is the demand for shoes in period t , X_t the total per capita consumption expenditure in period t and P_t is the relative price of shoes in period t ; a , b and c are constants. Explain:

- i. The effect of increase of consumption expenditure on the demand for shoes. **(2 Marks)**
- ii. The effect of an increase in the relative price of shoes on the demand for shoes. **(2Marks)**
- c) Describe ways of government intervention in a market economy. **(4 Marks)**
- d) A firm is considering enhancing their promotion efforts by employing TV advertisement in addition to the traditional methods they have employed so as to increase their market share and possibly revenue. Explain the considerations they should make before rolling out this strategy? **(5 Marks)**
- e) With appropriate examples, explain categories of capital budgeting projects. **(4 Marks)**
- f) Explain the use of cross elasticity of demand in making pricing decisions. **(2 Marks)**
- g) Explain how patents and copyrights may be used to settle antitrust actions. **(5 Marks)**

QUESTION TWO

- a) Explain why break-even analysis is popular in cost profit-volume decisions. **(4 Marks)**
- b) Managers price products on the basis of either the cost or the market conditions. Discuss various methods of price determination based on the market conditions. **(9 Marks)**
- c) The total production costs of a manufacturing firm at various levels of output are given in the table below.

Output (units)	0	20	40	60	100	200	300	400	500	1,000
Total Cost (\$)	1,000	1,200	1,300	1,380	1,600	2,300	3,200	4,300	5,650	13,650

Calculate the average variable cost at each level of output and interpret the changes. **(7 Marks)**

QUESTION THREE

- a) Explain the following principles in relation to managerial decision making:
- i. Principle of Equi-Marginal Analysis. **(4 Marks)**
 - ii. Principle of Incremental cost. **(3 Marks)**
 - iii. Discounting. **(3 Marks)**
- b) A food company is contemplating introducing a new product with new packaging to replace an existing product at a higher price(S_1) or a moderate change in the composition of the existing product with a new packaging at a small increase in price(S_2) or small change in the composition of the existing product except the word 'new' with a negligible increase in price(S_3). The three possible states of nature are: (i) high increase in sales(N_1), (ii) no change in sales(N_2), and (iii) decrease in sales(N_3). The marketing department of the company worked out the payoffs in terms of yearly net profits for each of the strategies for the expected sales. This is represented in the table below:

State of nature strategies	Payoffs(in \$)		
	N_1	N_2	N_3
S_1	1,400,000	600,000	300,000
S_2	1,000,000	900,000	0
S_3	600,000	300,000	600,000

Determine the strategy that the executive should choose based on:

- i. Maximin criterion. **(3 Marks)**
- ii. Maximax criterion. **(3 Marks)**
- iii. Minimax regret criterion. **(4 Marks)**

QUESTION FOUR

- a) Discuss the steps involved in capital budgeting process. **(6 Marks)**
- b) A firm is considering two projects A and B whose costs are Ksh.2million and 2.5million respectively with a cost of capital of 14 percent. The projected cash flows(in Ksh. 000') are as follows:

	Expected Net Cash Flow	
Year	Project A ('000)	Project B ('000)
0	-2000	-2500
1	400	800
2	600	600
3	600	500
4	700	600
5	600	800

For each project, compute the measures below and advise the director of the firm:

- i. The Payback period (PB). **(4 Marks)**
- ii. Net Present Value (NPV). **(6 Marks)**
- iii. Internal Rate of Return (IRR). **(4 Marks)**

QUESTION FIVE

- a) Pricing is one of the key decisions made by firms. Explain the factors which determine the pricing strategy adopted by a firm. **(10 Marks)**
- b) Explain two main features of monopolistic competition markets. **(2 Marks)**
- c) The management of a group of restaurants has undertaken a study of weekly demand for its coffee in 48 regional outlets. The study revealed that:

$$Q = 400 - 1200P + 0.8A + 55 \text{ Pop} + 800P_R$$

Where: Q is the number of cups of coffee sold per outlet per week

A is the level of local advertisement expenditure (in Kshs.)

Pop is the local population (in thousands)

P_R is the average coffee price of local competitors.

For the main outlet, $P = \text{Ksh.}150$, $A = \text{ksh.}10,000$, $\text{Pop} = 40$, and $P_R = \text{Ksh.}100$

- i. Estimate the weekly sales for the main outlet. **(2 Marks)**

- ii. Compute the current price elasticity for coffee and the advertising elasticity. **(4 Marks)**
- iii. Should the firm raise its coffee prices? Give reasons. **(2 Marks)**