JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT

3RD YEAR 1STSEMESTER 2015/2016 ACADEMIC YEAR

SPECIAL EXAM

COURSE CODE: ABA 306

TITLE: MANAGERIAL ECONOMICS

EXAM VENUE: LAB 1 **STREAM: (BBA – FINANCE)**

DATE: 04/05/16 **EXAM SESSION: 2.00 – 4.00 PM**

TIME: 2 HOURS

Instructions:

1. **Answer Question ONE (COMPULSORY) and ANY other 2 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

(a) How does managerial economics help managers in decision-making and forward planning? Manager? **(10 Marks)**

(b) The B-Products Plc produces two products, X and Y. The profit function of this company is given by: $\pi = 10X - X^2 - XY + 18Y - 2Y^2$. The company is under the obligation to produce a minimum combined output of 40 units. Find the number of units that will be produced of the products X and Y, subject to the total of 40 units, that maximises profit **(8 Marks)**

(c) Economic Theory of the firm puts profit as the main objective of the firm. This notion has been disputed by various economists who believe that businesses pursue a multiplicity of objectives.

Required

i. State and explain four other objectives of the firm **(8 marks)**

ii. State the maximization and minimization rule **(4 Marks)**

QUESTION TWO

i. State three macroeconomic problems managers face today **(3 Marks)**
ii. Explain how monetary and fiscal policies would be used to solve two(2) of the problems above **(10 Marks)**
iii. What is profit maximisation? **(2 Marks)**
iv. A monopolistic firm is one which fixes its price without necessarily using the demand and supply. In Kenya today, the emergence and survival of such firms have been attributed to the factors that prevent the entry of other firms into the market through barriers to entry.

Required

(a) Give two examples of monopolistic companies in Kenya **(2 Marks)**
(b) Enumerate three main barriers to entry **(3 Marks)**

QUESTION THREE

Under the Theory of Production, Dr. Marshall postulated that the law of diminishing returns applies to agriculture and the law of increasing returns to industry. Much time was wasted in discussion of this issue. However, it was later on recognized that there are not three laws of production. It is only one law of production which has three phases, increasing, diminishing and negative production. This general law of production was named as the *Law of Variable Proportions or the Law of Non-Proportional Returns*

(a) Sketch a graph of the THREE Production stages and show the shapes of TP, AP and MP **(10 Marks)**

(b) What are the causes of

(i) Initial increasing Returns (**2 Marks)**

(ii) Diminishing Returns **(2 Marks)**

(iii) Negative Returns **(2 Marks)**

(c) As a business manager, what are some of the applications (importance) of the Law of Variable Proportions to modern businesses **(4 Marks)**

QUESTION FOUR

a) What do you mean by production? Define production function and describe the assumptions. **(6 Marks)**
b) What are fixed and variable inputs? Illustrate with one example in each case **(4 Marks)**
c) Distinguish between laws of return to variables proportion and laws of returns to scale **(2 Marks)**
d) In a free market system, prices of goods and services are determined by the forces of demand and supply. In order to promote good practises and protect her citizens, the government is sometimes forced to impose regulations which are seen as interfering with free market forces.

Required:

Giving examples, explain Four (4) ways in which government interferes with free market mechanisms **(8 Marks)**

QUESTION FIVE

(a) Define Capital Budgeting **(3 Marks)**

(b) Investment appraisal techniques are the methods used by managers to evaluate the viability of projects for decision-making

Required:

Enumerate four features of good investment appraisal techniques **(4 Marks)**

(c) A company is considering two mutually exclusive projects requiring an initial cash outlay of Sh 10,000 each and with a useful life of 5 years. The company required rate of return is 10% and the appropriate corporate tax rate is 50%. The projects will be depreciated on a straight line basis. The before depreciation and taxes cash flows expected to be generated by the projects are as follows.

YEAR	*1*	*2*	*3*	*4*	*5*
Project A	Shs 4,000	4,000	4,000	4,000	4,000
Project B	Shs 6,000	3,000	2,000	5,000	5,000

Required:

Calculate for each project

i. The payback period **(2 Marks)**
ii. The average rate of return **(2 Marks)**
iii. The net present value **(2 Marks)**
iv. Profitability index **(2 Marks)**
v. The internal rate of return (**2 Marks**)

Which project should be accepted? Why? **(3 Mark)**

PVIF,$_{n, r\%}$ $(1+r\%)^{-n}$

Yr	1	2	3	4	5
PVIF (n,r%)	0.909	0.826	0.751	0.683	0.621