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

**BBA 821: MANAGERIAL ECONOMICS**

**2ND SEMESTER 2025/2026** **TIME: 3 HOURS**

**INSTRUCTIONS:**

**Answer Question ONE (Compulsory) and any other TWO Questions**

## QUESTION ONE

a) Critically evaluate the argument that goal-oriented managers should possess a strong background in managerial economics. **(4 marks)**

b) A key approach to price determination involves basing pricing decisions on the costs incurred in producing and delivering a product. Discuss any four cost-based pricing methods that a firm may use in setting prices, illustrating your answer with relevant examples. **(8 marks)**

c) A senior manager at Apex Consumer Goods Limited has engaged you as a managerial economics expert to design a quantitative model for sales forecasting to aid in future planning. The company has shared the following sales data:

| Year | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Sales | 280 | 300 | 310 | 325 | 320 | 340 |

Using regression analysis, formulate a suitable quantitative model for estimating sales and use it to forecast sales for the years 2029 and 2031. **(8 marks)**

## QUESTION TWO

a) Provide a critical evaluation of the relevance of profit maximization as a key assumption in the theory of the firm. **(4 marks)**

b) According to a survey conducted by a managerial economist, the total demand for vehicles at Nairobi Auto Traders Limited exhibits an elasticity of 1.65.

i) Provide an interpretation of the reported value of the demand elasticity. **(2 marks)**

ii) Using a relevant example, discuss the managerial implications of the reported demand elasticity. **(3 marks)**

iii) Explain the managerial functions and significance of the concept of demand elasticity in decision-making. **(3 marks)**

c) Continental Fuels Ltd. specializes in the production and sale of Lubricant Oil and Bio-Diesel. The company's profit function depends on the output levels x and y of Lubricant Oil and Bio-Diesel, respectively. Given:

$$\pi = -60 + 140x + 100y - 10x^2 - 8y^2 - 6xy$$

Evaluate the profit-maximizing output levels for both products and determine the corresponding maximum profit for the company. **(8 marks)**

**QUESTION THREE**

Nairobi Pipeworks Limited, a small manufacturing firm located in Embakasi, Nairobi City County, produces threaded pipe plugs. The firm has determined the following cost structure per unit:

| | |
|---|---|
| Fixed cost | Kshs 15,000 |
| Variable cost per threaded pipe plug: | Kshs 9 |
| Selling price per threaded pipe plug: | Kshs 30 |

a) Advise the management team of Nairobi Pipeworks Ltd. on the quantity of threaded pipe plugs that would yield a target profit of Kshs 400,000. **(4 marks)**

b) Discuss the practical significance of cost control and cost management for firms, and explain the main areas where cost control can be effectively applied. **(6 marks)**

c) Provide a critical examination of the approaches to pricing employed by firms operating within an oligopoly market. **(10 marks)**

**QUESTION FOUR**

a) Analyze the key factors that contribute to increasing returns to scale, explaining how each factor enhances production efficiency. **(4 marks)**

b) As a consultant for a company planning to launch a new product, evaluate the different approaches that can be used to forecast its demand. **(8 marks)**

c) Suppose a producer has the ability to practice price discrimination between the domestic and foreign markets for a product. The demand functions for the two markets are given as:

$$Q_1 = 42 - 0.2P_1 \quad \text{(Domestic Market)}$$
$$Q_2 = 100 - 0.8P_2 \quad \text{(Foreign Market)}$$

The total cost function is:

$$TC = 4000 + 20Q, \text{ where } Q = Q_1 + Q_2).$$

Determine the profit-maximizing prices $P_1$ and $P_2$ for the domestic and foreign markets, respectively. **(8 marks)**