KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

BBA 821: MANAGERIAL ECONOMICS

DATE: Friday, 24th November 2017 **TIME: 2.00p.m-5.00p.m**

INSTRUCTIONS: Answer Question ONE and Any Other Two

QUESTION ONE

a) Write notes giving distinctions between the following concepts as used in Managerial Economics. **(10 marks)**

i. Explicit and implicit costs
ii. Firm's constraint and objective
iii. Economies of scope and economies of scale
iv. Price penetration and price skimming
v. Opportunity cost and sunken cost

b) State and explain the shareholder's wealth maximization model. How relevant is this model for managerial decision making and future success of a business. **(8 marks)**

c) The study of managerial economics employs both economic theory and decision science in business modeling. Using relevant examples, explain this unique relationship. **(6 marks)**

d) "Firms exist as organizations because the total cost of producing any level of output is lower than if the firm did not exist" Discuss. **(6 marks)**

QUESTION TWO

a) Compare and contrast the pricing outcomes in perfect and monopolistic competition. Use equations and diagram/graphs to illustrate your answer. **(6 marks)**

b) The degree of market power can be measured by the extent to which the monopolist can hold the price above the marginal cost. Mathematically derive and explain this relationship. (Show your workings). **(5 marks)**

c) Explain any FOUR factors that determine a market structure. **(4 marks)**

QUESTION THREE

a) What is the importance of a langragian multiplier in optimization? **(3 marks)**

b) "Even where the government does not intervene, cartels do not last long" Discuss this statement. **(5 marks)**

c) Using the following data calculate the expected value, the standard deviation and the coefficient of variation for each of the projects. Which project is the least risky and which is the most risky? Which project would a risk-averse individual and risk- loving individual choose?

Project A		**Project B**		**Project C**	
NCF	**Prob**	**NCF**	**Prob**	**NCF**	**Prob**
200	0.2	-200	0.3	100	0.1
400	0.6	600	0.5	500	0.7
200	0.2	1200	0.2	1000	0.2

(7 marks)

QUESTION FOUR

a) Estimation and forecasting of future demand is essential for planning and scheduling of production, purchase of raw materials, acquisition of finance and advertising. You have been recently appointed as the product manager for manufacturing company. Describe any TWO techniques that you would employ to estimate demand of the detergent. Why is it important to estimate a demand function? **(8 marks)**

b) A firm has a production function given as $y = 90 - 2p$. If the firm has a cost function expressed as $C = y^3 - 8y^2 + 57y + 2$

Required

i. Find the maximum output that maximizes profit. **(5marks)**

ii. What is the maximum profit **(2marks)**