KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY IN BUSINESS

BBA 920: ECONOMIC ANALYSIS FOR BUSINESS DECISIONS

DATE: Monday, 20th November 2017 **TIME:** 5.30 p.m. - 8.30 p.m.

INSTRUCTIONS:

Answer **QUESTION ONE** and any other **TWO QUESTIONS**

QUESTION ONE

a) With the aid of well labeled diagrams, discuss the concept of substitution and income effects. Show how these concepts are useful in determining the nature of the good or a service. **[3 Marks]**

b) The pricing mechanism depends on the elasticity of demand for a particular product. Show how prices would depend on elasticities of demand in the two extreme markets of perfect competition and monopoly. **[3 Marks]**

c) The following data was extracted from the Kenyan Macro model

$$c=100+0.8yd$$
$$i=10-8r$$
$$L=y-50r$$
$$g=100$$
$$t=0.25y$$
$$M=2950$$
$$P=10$$

Required

- Compute and interpret the values of both the monetary and fiscal policy multipliers **[4 Marks]**
- Demonstrate when the two multipliers would be most effective? **[2 Marks]**

INVOLVEMENT IN ANY EXAMINATION IRREGULARITY SHALL LEAD TO DISCONTINUATION

d) Why is it important to figure out the economic environment as you make decisions to enter a market? **[3 Marks]**

QUESTION TWO

a) An increase in income has implications in the money market. Using well labeled diagrams, analyze the impact of an increase in income on interest rates in the money market. **[3 Marks]**

b) Barbara is a sophisticated consumer facing two goods which are imperfect substitutes, with unitary elasticities (with respect to the two goods). Solve the consumer's problems for uncompensated and compensated demand functions. **[6 Marks]**

c) Demonstrate your understanding of the concept of Philips curves using elaborate equations. **[6 Marks]**

QUESTION THREE

a) Stabilization policy has over the years depended on the implications of the built- in stabilizer brought about by the economy's tax policy. With the aid of well labeled diagram, show your understanding of this mechanism on the demand side of the economy. **[6 Marks]**

b) Patel has won the tender to repaint KU Plaza. His problem is to minimize the cost of painting the building with blue (X_1) and white (X_2) paints. He faces the following production function $Y = X_1^{0.5} X_2^{0.5}$. Using economic tools of analysis solve Patel's problem. **[5 Marks]**

c) Using the static model, show the likely result in the short run of a sudden exogenous increase in the level of investment demand in the economy? **[4 Marks]**

QUESTION FOUR

a) Demand management policies are important in the management of the economy. Fiscal policy is one of the important tools of government policy. Analyze the implication of an increase in government expenditure on the economy using static model. **[7 Marks]**

b) Using economic tools of analysis, show the optimal level of output and input that should be produced and employed for the firm to maximize profits. **[8 Marks]**